Acting with Impunity? The Performance Impact and Strategic Outcomes of Corporate Social Irresponsibility

Thesis

ACTING WITH IMPUNITY?

THE PERFORMANCE IMPACT AND STRATEGIC OUTCOMES OF CORPORATE SOCIAL IRRESPONSIBILITY

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Thesis submitted in accordance with the requirements of The Open University for the degree of Doctor of Philosophy

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September 2020

ABSTRACT

Complex global challenges such as climate change and the 2008 financial crisis have pushed firms to adopt more socially responsible strategies. Yet many still display socially irresponsible behavior, and the demonstrable effect on firm performance and strategic growth has been scarcely researched. Consequently, this thesis aims to address the following overarching research question: *does corporate social irresponsibility (CSiR) adversely affect performance and strategic growth or can firms act with impunity?* Specifically, we examined the financial and non-financial outcomes of being socially irresponsible. Additionally, we analyzed whether corporate political activity (CPA) and corporate reputation moderate these relationships.

The thesis is comprised of three core chapters. In the first chapter we applied content analysis to systematically review the instrumental stakeholder theory (IST) literature to first, determine the current state of knowledge; and second, extend the theory into the nonmarket domain. Following from this review, in the second core chapter we draw on IST to conduct a quantitative analysis to determine the impact of CSiR on both market and corporate social performance, and the moderating role of CPA. Our findings suggest that CSiR does not seem to influence market-based performance measures. Meanwhile, it does diminish corporate social performance—a negative effect that is intensified by the firm engaging in financial and relational political activity. Finally, in the third core chapter we use IST and signaling theory to explore the firms' ability to announce new mergers and acquisitions (M&As) in the aftermath of a CSiR event. Our results show that there is a partially significant negative relationship between firm involvement in CSiR and the increase in M&A announcements, which becomes nonsignificant when M&As are announced in developing economies. Moreover, whereas lobbying expenditures negatively

moderate this relationship (consistent with the analysis in the previous chapter), corporate reputation exerts a positive moderating effect.

This thesis contributes theoretically to advancing IST and signaling theory literatures through engaging and applying these ideas in the nonmarket strategy domain. Empirically, the primary contribution of this thesis is in adding to extant research on the financial and non-financial outcomes of CSiR by using quantitative methods. Specifically, we developed a unique CSiR database from LexisNexis media publications, that formed the basis of the analyses in Chapters 3 and 4. Finally, the findings of this thesis have important implications for managers and leaders, who may extract valuable lessons about stakeholder management and the implications of CSiR, CPA, and corporate reputation.

ACKNOWLEDGEMENTS

The time spent working to complete my doctoral thesis has been a challenging and rewarding experience, but this was not a solo journey and I have been incredibly lucky to have people in my life who provided continuous support during the last three years.

I first and foremost would like to thank my supervisory team Professor Thomas Lawton and Dr Raquel Garcia-Garcia who have been a constant source of support and encouragement throughout. I am immensely grateful for the advice and guidance during the time spent to complete this project. Their time and commitment have been invaluable, and this research would not have been possible without them. I would also like to thank Jessica Giles, who provided pastoral care and support throughout my academic journey, I am immensely grateful to her for the time she dedicated to providing care and encouragement. I would also like to take this opportunity to thank Professor Elizabeth Daniels and Professor Devendra Kodwani for their support. I am especially grateful to Lin Nilsen and Michelle Stevens for all their help and guidance as FBL coordinators.

I would also like to extend special thanks to Dr Tahiru Liedong at the University of Bath, who provided invaluable support as my supervisor during my six-month research stay at the Centre for Business, Organisation and Society (CBOS). Additionally, I would like to thank the members of CBOS who helped make my time at the research centre such an amazing experience. The time spent at CBOS not only allowed me to complete a crucial part of my thesis, during the data collection phase, but this gave me the opportunity to meet academics and students with similar research interests. I also extend thanks to the Santander Universities Network, who provided financial assistance through the Research Mobility Scholarship.

Finally, I would like to thank my amazing family and friends, who have provided so much encouragement throughout this journey. I feel extremely lucky to have such amazing people in my life who have always sought to motivate me throughout this journey, most especially my niece and nephews Cillian, Oisín and Saoirse who bring such joy to my life.

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LIST OF ABBREVIATIONS

CPA: Corporate Political Activity

CSiR: Corporate Social Irresponsibility

CSR: Corporate Social Responsibility

IB: International Business

IMF: International Monetary Fund

IST: Instrumental Stakeholder Theory

M&A: Mergers and Acquisitions

NGO: Nongovernmental Organization

NMS: Nonmarket Strategy

SRI: Socially Responsible Investments

TA: Trade Association

UNCTAD: United Nations Conference on Trade and Development

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CHAPTER 1 – INTRODUCTION

1.1 Introduction

Over the last three decades, as economies and companies globalized, we have witnessed escalating stakeholder pressure on firms to readdress their role in society (Hah and Freeman, 2014). Access to new international markets, where firms often take advantage of cheap labor and lax regulatory systems (El Ghoul, Guedhami and Kim, 2017); the exposure of serious corporate misconduct in the lead up to the 2008 financial crisis (Herzig and Moon, 2013); and the antecedents and outcomes of climate change (Reid and Toffel, 2009), are some of the issues and areas that have transformed not only the structures and operating practices of firms, but also how stakeholders view corporate action and impact. Alongside these matters is the fact that firms are becoming increasingly powerful in terms of influence over governments and control of important resources (McDonnell and Werner, 2016). Firms often bridge institutional deficiencies, particularly in emerging economies, assuming a *de facto* governmental role by assuming, or sharing, responsibilities for health, education, human rights, and environmental protection (Kolk and Van Tulder, 2010; Scherer, Palazzo and Matten, 2014).

Firms have increasingly expanded across national borders to take advantage of new markets, access scarce resources, expand production and sales, and form new alliances (Enderwick, 2018). Besides these drivers to grow internationally, there is a burgeoning trend, at local, regional and national government levels, to compete for corporate investment by offering lucrative incentives to establish production and value chain operations (Matten and Moon, 2008). For example, the global technology giant Amazon effectively ignited a bidding war in the United States between local city and state governments, in its quest to establish a second headquarters. The firm promised to invest significantly in the selected area in the form of job creation, while seeking lucrative incentives consisting of controversial tax and financial packages. This contentious strategy highlights the interconnections between powerful firms and government officials, even if this ultimately attracts significant backlash from social activists and local community groups, as happened in the Amazon example.

The increased role of firms' in both social and political spheres is now shaping how they operate and devise their strategic goals beyond merely market intent. In this regard, Baron (1995) first introduced the concept of nonmarket strategy (NMS) to account for corporate social, political and legal activities that shape the competitive environment. Research in both strategic management and international business has now moved towards designing NMS that improves firm performance, often specifically focused on influencing public policy decisions and outcomes (Bonardi, Holburn and Vanden Bergh, 2006). This in turn has prompted scholars to devote considerable resources to understand where nonmarket factors fit into the more traditional business environment. As firms increase their involvement in social and political arenas, this is affecting how they develop and implement core strategic decision-making processes (Hawn, in press), working to understand how to align their market and nonmarket strategies to achieve their corporate objectives (Lawton, Doh and Rajwani, 2014).

We[1] note that NMS has developed almost separately across two main strands of literature. Firstly, corporate social responsibility (CSR), which accounts for the policies and practices that firms implement concerning their social and environmental impact. And secondly, corporate political activity (CPA), which considers the initiatives that firms undertake to shape public policy and regulatory frameworks in their favor. Separately, both topics have contributed extensively to

[1] This thesis differs from the more traditional monograph thesis in that its chapters can be more easily formatted for publication purposes. Based on the structure of previous thesis (e.g. García García, R., 2014. 'The effect of internationalization on the result of Spanish listed firms: 1986-2010'), guided by the same rationale, the term "we" has been used throughout the document to note the work of the researcher.

the NMS literature, yet questions remain regarding how to align both strands effectively to improve firm performance (den Hond, Rehbein, de Bakker and Lankveld, 2014; Lawton et al., 2014; Liedong, Rajwani and Mellahi, 2017; Mellahi et al., 2016).

Despite the increased interest in NMS, there are certain limitations concerning how this topic has developed. Firstly, scholars in the nonmarket arena have called for the alignment of CSR and CPA, yet so far, little progress has been made in either conceptual or empirical studies (den Hond et al., 2014). Secondly, we note that both strands of the literature have developed to take a rather one-sided approach. In particular, focused on CSR and its financial benefits and thus ignoring other important factors that may develop the area, such as the alignment of CPA and CSR, or studying how investing in CSR does not necessarily mean a lack of involvement in irresponsible behavior. In some respects, we live in an age of contradictions, where corporations are viewed as leaders in the fight against grand societal challenges, from climate change and inequality to global poverty (Barnett, Henriques and Husted, 2020), but are also blamed for many of the world's problems.

As we identify growing interest in business and society to discover how CSR and CPA can together be a positive influence in society (e.g. Flammer, 2013; Ioannou and Serafeim, 2012), the concept of corporate social irresponsibility (CSiR) has mostly gone undetected. The key aim of this research is therefore to understand the outcomes of CSiR, both in financial and non-financial terms.

Originally introduced by Armstrong (1977) CSiR has been largely overlooked in management research. However, in recent years interest has shifted to understand what constitutes as irresponsible corporate behavior, why firms engage in CSiR and its potential effect on firm performance (Jones, Bowd and Tench, 2009). We note that significant research conducted on CSR is a key factor contributing to the under-researched nature of CSiR. As interest in CSR grew in academia, research focused on the idea that if a firm is "doing good" it is by default "avoiding bad", contributing to the lack of direct attention on CSiR as a stand-alone concept (Murphy and Schlegelmilch, 2013; Walker *et al.*, 2016).

Similar to CSR, the concept of CSiR is best described as being multifaceted and complex in nature, identified through a broad range of actions undertaken by firms (Riera and Iborra, 2017). The issue is further amplified by the lack of a consistent definition concerning what exactly constitutes socially irresponsible behavior. Strike *et al.* (2006: 852) describes this concept as "the set of corporate actions that negatively affects an identifiable social stakeholder's legitimate claims". Yet the notion that CSiR can be both accidental and intentional is absent here, thus blurring the line in terms of how CSiR can be identified to appropriate responsibility.

Overall, the act of CSiR is commonly understood as "immoral and/or illegal corporate actions with negative consequences for others" (Lin-Hi and Müller, 2013: 1932). How we differentiate between intentional and accidental CSiR is dependent on numerous factors. Intentional CSiR is predominantly associated with financial misconducts like deceptive accounting practices (Harris and Bromiley, 2007), stock option backdating (Carberry *et al.*, 2018; Lie 2005) and embezzlement (Karpoff, Lee and Martin, 2008). While accidental CSiR falls into categories reporting on issues such as environmental damage (Fu *et al.*, 2019) and product recalls (Carvalho, Muralidharan and Bapuji, 2015). However, these distinctions can often be distorted by stakeholder perception of the CSiR event and can determine stakeholder's response to these actions (Barnett, 2014).

Intentional CSiR have previously been linked to market uncertainty (Campbell, 2007) where firms may try to engage in profit maximizing behavior harmful to stakeholders (Lin-Hi and Müller, 2013). Yet, this will only benefit the firm if the CSiR actions remain hidden, exposure can also ensure firms incur significant costs and penalties. Moreover, the characteristics of the CSiR act itself can determine the level of accountability, as what exactly counts as socially irresponsible behavior is an evolving process. Where firms may be directly involved in CSiR acts related to bribery and fraud, other times, firms are also indirectly implicated in CSiR actions through association across their value chain (Strike *et al.*, 2006). These actions could result in accusations of negligence, rather than outright misconduct. As stakeholder awareness of firm behavior increases, identifying irresponsible behavior can be a complex process as the concept of CSiR is still evolving. For instance, certain practices by firms previously deemed acceptable, are now considered unacceptable or even illegal due to changing laws and regulatory processes. Issues such as use of child labor across supply chains has received considerable attention in recent years, due to stakeholder pressure firms are no longer involved in these practices (Kolk and van Tulder, 2010).

As research has only recently begun to investigate CSiR, so far, there is no consensus concerning whether CSiR can have a positive or negative impact on firm performance. In some CSR studies, scholars have reached an agreement of sorts that socially responsible firms will be rewarded in the marketplace (Doh, Howton, Howton and Siegel, 2010). However, research also suggests that despite irresponsible behavior, firms will continue to operate successfully and face no serious consequences for their actions. Chen, Guo, Hsiao and Chen (2018) use Apple Inc. as an example of this contradictory behavior, stating that despite facing accusations of child labor and poor working conditions across its supply chain, the firm has faced relatively little backlash and continues to enjoy rising profits. Indeed, as consequences such as lawsuits and diminished reputation are held up as potential deterrents to socially irresponsible behavior, it seems reasonable to ask why this behavior still occurs. Moreover, firms now face increased scrutiny from stakeholders as various aspects of CSiR attract scrutiny from the media, thus amplifying their behavior. As firms expand across national borders and build international presence through dispersed global operations, this further impacts on performance and reputation.

Despite the impact that CSiR may have on organizational outcomes, only a few exceptions such as Chen et al. (2018), Kim, Kim and Qian (2018), and Price and Sun (2017) have looked at the performance impact of social irresponsibility. For this reason, this thesis addresses the following research question: *Does CSiR adversely affect performance and strategic growth or can firms act with impunity?*

Climate change, human rights, and corporate scandals are pushing firms to develop policy and performance outcomes that account for political, social, legal, and cultural factors. Our research considers these factors, and also how they are received and perceived by a firm's stakeholders. It is now common practice for firms to devise socio-political strategies that consider a firm's corporate social performance and corporate political activity as a means for firms to contribute to and sustain long-term competitive advantage (Barnett and Salomon, 2012; Baron, 1995; Kang, Germann and Grewal, 2016; Lin-Hi and Müller, 2013). This thesis aims to address these various strands of NMS to gain a better understanding of how firms devise market and nonmarket strategy to overcome exposure to socially irresponsible behavior. By introducing instrumental stakeholder theory (IST) as our main theoretical lens, we aim to address how stakeholders have the potential to sanction or reward firms for their (ir)responsible behavior.

1.2 Research Philosophy

In this section we provide a brief overview of the key methodological aspects of this thesis. Here we address the epistemological and ontological considerations that guided the development of the thesis, along with the methodology and research strategy. However, we will discuss the specific details on the research methods, data collection and types of analysis in each of the three chapters that form the main body of research for this thesis.

Choosing the appropriate research methods is a complex process that often changes from one project to another. This requires asking questions that determines the "how", "what" and "why" of the research process and often reflects the researcher's own belief system (Holden and Lynch, 2006; Saunders, Lewis, and Thornhill, 2009). According to Burrell and Morgan (1979), scholars make assumptions regarding the nature of society and science, questioning if the principles and practices of the natural sciences apply to the social sciences (Bryman and Bell, 2011). The distinction between the 'natural world' and research concerning social phenomena like culture, organizations, values and beliefs spurs this debate, with researchers divided on the most appropriate stance to study these characteristics (Bryman and Bell, 2011; Walliman, 2011).

Adding to this, we now operate in an era where many practical considerations are impacting on a researcher's ability to access information and data, influencing methodological choices. Issues concerning an overload of information and potential misinformation can negatively impact research outcomes, making the philosophical positioning an important factor in the research process (Ruane, 2016). Furthermore, the practicalities of researchers gaining access to primary data sources is increasingly challenging. It is this aspect that has largely driven the philosophical stance taken in this thesis. It is important to understand that choosing the appropriate research methodology can provide a pathway to develop a rigorous research plan to account for any issues and bias that may appear.

1.2.1 Epistemology and ontology

Before designing a research strategy, it is important to identify a researcher's philosophical positioning. Epistemology is referred to as what is acceptable knowledge in a research discipline or field of study (Bryman and Bell, 2011; Saunders *et al.*, 2009). According to Creswell (2003), when considering this approach, research in social science has traditionally taken two philosophical paradigms; namely, *positivist* (associated with a quantitative approach), and *social constructionist* (associated with a qualitative approach). Scholars carrying out a study should think about the research paradigm that best suits their needs. The term *paradigm* has different meanings depending on the person's own beliefs and assumptions (Hussey and Hussey, 1997). Selecting the most appropriate approach and understanding the underlying philosophical issues can be useful in terms of clarifying the research design (i.e. data gathering, measurement, and analysis), therefore providing the researcher with a clear path to recognize the designs that will and will not work, while also helping them to adapt to constraints stemming from different subjects or knowledge structures (Easterby-Smith, Thorpe, and Jackson, 2008).

While many debates surrounding epistemological and ontological considerations generally focus on the two main paradigms of positivism and constructivism, in recent years we note a growing interest in a third paradigm labeled *pragmatism.* Though this is generally applied to researchers undertaking a mixed methods approach, we agree with sentiments expressed by O'Leary (2013) and Saunders *et al.* (2009), who argued against taking traditional approaches to research methods and strongly encouraged academics to focus on the research question itself, taking the approach that best answers said research question. We recognize the different philosophical positions that researchers take and agree that one is not necessarily better than another. Furthermore, we argue that the traditional research approaches of positivism or constructivism should not be an either/or ultimatum and the practicalities and challenges of the research process should be considered.

We propose that taking on the paradigm of *pragmatism* is ideally suited to the business and society research domain, specifically research addressing the controversial concept of CSiR. In this case, taking a social constructivist position would be met with significant challenges regarding access to primary data. Indeed, in the initial stages of the thesis we developed an inductive qualitative study targeting the aerospace industry, whose strong involvement in nonmarket activities made it particularly appropriate to carry out our analysis. We encountered serious challenges throughout this process, as most senior executives were reluctant or unable to discuss their nonmarket strategies in detail with 'outside researchers'. We found that firms were conflicted or constrained by the separate strands of nonmarket research. Where we had interest in discussing a firm's socially responsible activities, dialogue about their political activity was strongly discouraged. This effectively ruled out taking a social constructivist approach.

Applying the pragmatic paradigm to our research, in chapters 3 and 4 we undertake a quantitative approach to our research methods and design a research strategy whereby CSiR characteristics are viewed as observable phenomena that can be measured to explain and predict actions in society by researchers searching for casual relationships (Burrell and Morgan, 1979).

We justify our epistemological approach by again pointing to the nature of our research topics. We designed our methodological approach based on evidence that is publicly available through the various databases we have used. Our topic of CSiR is rather subjective, where one may view an incident as morally or legally wrong, depending on the personal views of the researcher or the jurisdiction of the incident. We aimed to avoid any personal bias by collecting and coding a large amount of data detailing each CSiR incident, which we identified using a specific set of keywords covering a broad range of events. Added to this, we did not restrict either the geographical boundaries where the incidents had taken place or the media publications in which they had been published—ranging from high-impact outlets in terms of reach like CNN, BBC and the New York Times, to low impact ones such as local community newspapers and press releases.

Due to the nature of the core research topics CSR and CPA, choosing the most appropriate selection of firms to create our sample played an essential role in the research process. It is necessary that the chosen sample is reflective of both these concepts, including firms that have a social and political profile. To this end, our sample comprises firms listed on Standard and Poor's (S&P) 500 index, which is primarily made up of large US listed firms that have an international profile (Chen, Hermes and Hooghiemstra, 2020; Ioannou and Serafeim, 2012). S&P 500 firms represent a significant portion of the American economy, operating across a wide range of industries (Werner, 2015). Most of these firms are large multinationals that must have a market capitalization of $8.2 billion to meet the eligibility criteria.[2] From this perspective, we note that larger firms are more likely to engage in political activities, expressly aimed at improving firm performance (Minnick and Noga, 2017). The scale of political activity that takes place in the United States is a contributing factor in using the S&P 500 index. For instance, in 2018 the lobbying activity alone totaled $3.4 billion in the country.[3] Additionally, these firms all have economic, social and governance ratings (ESG) evidenced by their social responsibility involvement. Furthermore, due to the data availability of these firms on databases and publicly accessible platforms, the sample of firms used in the US context is wholly appropriate for the topics

[2] https://www.spglobal.com/spdji/en/documents/additional-material/sp-500-brochure.pdf (Last accessed November 10, 2020).
[3] https://www.opensecrets.org/news/2019/01/lobbying-spending-reaches-3-4-billion-in-18/ (Last accessed November 10, 2020).

researched in this thesis. As previously mentioned, we elaborate on the description of the methods used to perform our analyses in subsequent chapters.

1.2.2 Research approach

Our research strategy is guided by the aim and objective of answering the following question: *Does CSiR adversely affect performance and strategic growth or can firms act with impunity?* Taking a pragmatic approach to our research and in light of the CSiR concept, the aim of this research is to discover:

1. What is the current state of knowledge concerning IST and how we can extend this theory into the nonmarket domain?
2. What is the impact of socially irresponsible behavior on a firm's financial and non-financial performance?
3. How will socially irresponsible behavior affect a firm's core strategic decision processes, particularly external growth strategies?
4. How do CPA and corporate reputation moderate the above relationships?

To answer these questions, we start by conducting a content analysis of the IST literature in Chapter 2. This method has grown in popularity and is used to critically assess literature from multiple sources (Duriau, Reger and Pfarrer, 2007). Our aim here is to map the trajectory of this theory since its introduction by Donaldson and Preston (1995) and assess its theoretical and empirical development. The process of content analysis allows us to identify specific themes to highlight the research trajectory and provide a pathway to future research.

Our research then takes a purely quantitative approach in Chapters 3 and 4. We have created an extensive and unique database to investigate how CSiR can influence a firm's stated objectives to improve performance. Our methodological approach aligns with previous research in the nonmarket strategy and social movement literatures (e.g. McDonnell and Werner, 2016; Price and Sun, 2017). Our data collection strategy set out to gather secondary archival data, collected from a number of sources that has been used to create our dependent, independent, moderating, and control variables specifically targeted to answer the hypotheses.

We developed and tested a series of hypotheses on a panel-data sample of firms listed on Standard and Poor's (S&P) 500 over an 11-year timeframe (2007-2017). Our original sample consisted of 503 companies and 5,533 firm year observations. However, we lost some observations due to either a lack of available data or because firms disappear by ceasing their activity or getting delisted during our specified timeframe. Consequently, we performed our analyses on an unbalanced sample of 300 firms and 2,533 observations in Chapter 3, and 304 firms and 2,592 observations in Chapter 4 respectively.

1.3 Intended Contribution to Research

The research conducted in this thesis aims to make four central contributions to the NMS, IST and M&A literatures. First, our intention is extend IST into the nonmarket domain by drawing attention to the ability of stakeholders to sanction firms where irresponsible actions by firms has been discovered. Our second stated contribution is to the nonmarket domain, where we address a call from strategy and international business scholars to align the parallel strands of NMS; namely, CSR and CPA. The goal here is to investigate whether these two concepts can be utilized to improve firm performance. Our research also analyzes the differing impact of CSR and CPA tactics where CSiR has occurred to understand if firms can align these concepts to avoid potential consequences for their irresponsible actions.

We also make a more generic contribution to the NMS literature by analyzing CSR and CSiR as two separate variables. Recently, business and society scholars have taken note of the dominant perspective in CSR research that assumes that firms that “do good” also “avoid bad” (Murphy and Schlegelmilch, 2013). Our research aims to move away from this one-sided approach to examine both constructs separately. Taking a quantitative approach in chapters 3 and 4, our research differentiates “good” and “bad” firm actions to provide a better understanding of the different factors that can influence firm performance and growth.

Our final contribution focuses on the mergers and acquisitions (M&A) literature. We extend nonmarket strategy and IST into this research domain to determine the potential effect of CSiR and stakeholder engagement on the M&A process. M&As are complex negotiations and are often subject to many nonmarket factors such as political, social and governance issues. However, so far, the M&A literature has largely overlooked this instance. Consequently, this thesis attempts to address this gap.

1.4 Outline of the Thesis

This section provides a brief outline of the structure, content, and objectives of each chapter. The main body of the thesis is constructed of three chapters, each containing a detailed literature review, set of hypotheses, and specific research methodology aimed at answering the overarching question: *Does CSiR adversely affect performance and strategic growth or can firms act with impunity?*

Chapter 2. In this chapter we use content analysis to systematically review the literature on *IST*. We note that there is a renewed interest in this strand of stakeholder theory (Bridoux and Stoelhorst, 2014). The core ethos of IST concerns how firms can engage fairly with stakeholder groups on an ethical contract basis to achieve corporate goals by building long-term stakeholder relationships (Jones, 1995). To gain a comprehensive understanding of this theory we reviewed the existing IST literature, tracing how this theory has developed since its introduction by Donaldson and Preston (1995). Using the process of content analysis, we identified and reviewed 109 papers spanning from 1995-2019, beginning with the original introduction of the theory. Building upon Laplume, Sonpar and Litz (2008), we identified four themes that capture the research trajectory that IST has followed: 1) *Identification and salience*; 2) *Firm performance*; 3) *Corporate social responsibility (CSR)*; and 4) *Theory debates;* our research extends this, adding a fifth them *Corporate Social Irresponsibility (CSiR)*.

Recent research on stakeholder engagement and firm performance has shifted to account for the roles of both primary and secondary stakeholders, and how they have changed over the last three decades. Firms are continually seeking to improve their financial and operational capabilities, yet challenging external factors are influencing how they can achieve their aims. Increased emphasis on the societal and environmental impact of firms presents new challenges that must be addressed and understanding the role that stakeholders play is more crucial than ever.

Our review reveals that much of the research applies an IST approach to find a link between CSR and firm performance. However, research in this vein has mostly overlooked the performance effects of CSiR. Moreover, we note that previous research using IST has only recently begun to account for a nonmarket approach. This thesis is focused on the interaction between firms and their stakeholders, investigating how or if they can be sanctioned for bad behavior. The seminal contribution of Jones (1995) identified how firms can sanction stakeholders, and much of the research has followed in this vein. However, our research takes a different approach. Taking an instrumental perspective seeks to use various stakeholder groups to improve firm performance.

However, when firms are involved in CSiR, research has overlooked how these same stakeholders have the potential to retaliate against the firm. We empirically investigate this concept in the following two chapters using IST as our main theoretical approach.

Chapter 3. Our second chapter aims to uncover the extent to which involvement in CSiR can impact firm performance, investigating both financial and non-financial performance measures. To do this, we developed and tested a series of hypotheses using random effects regressions on our sample of firms listed in the S&P 500 over an 11-year timeframe (2007-2017). We use this timeframe as it reflects a period of immense socio-political change, as corporate misconduct was revealed on a global scale due to the 2008 financial crash. Additionally, 2007 saw a rise in the use of social media platforms which increased stakeholder awareness of the 'good' and 'bad' actions of firms. Using the unique CSiR database that we specifically developed for this thesis, we created our dependent variables *financial performance* (proxied by the firm's Tobin's q), and *non-financial performance* (measured using firm's corporate social performance or CSP). In addition, we analyzed the moderating effects of *financial and relational CPA*; or lobbying expenditures and distance from the firm's headquarters to Washington DC (the political capital of the US), respectively.

Our results show that there is no significant relationship between CSiR and financial performance. However, we find evidence that CSiR will negatively impact a firm's non-financial performance in the form of CSP. Adding to this, we find that firms involved in CSiR that also partake in financial CPA will experience further damage to their non-financial performance. Interestingly, this is not the case when we analyze a firm's political connections using the geographic measurement of '*distance to DC'*. This measurement represents the location of our sample firms headquarters relative to Washington DC. To better understand the role of political connections, though, we ran additional tests using an alternative measure of relational CPA (i.e. number of *revolvers*[4] hired by the firm). Using this measure provided new insight into our results, as our tests produced support for our hypothesis that political connections also deepen the negative relationship between CSiR and non-financial performance.

This chapter provides interesting contributions about the ways in which firms use nonmarket strategies to affect firm performance. By applying an instrumental perspective to stakeholder relations, we gained a deeper understanding of how these strategies, particularly those focused on firm political activity, can impact relationships between firms and their stakeholder groups with the aim to gain competitive advantage. Firms increase investment in non-financial performance activities to improve corporate reputation, brand loyalty, and boost employee morale (Basu and Palazzo, 2008; Eccles, Ioannou and Serafeim, 2014). Our research sheds light on how CPA can potentially undo all the gains earned by engaging in actions that may seem to improve performance at the expense of some of the firm's stakeholders, leaving firms vulnerable to stakeholder retaliation.

Chapter 4. In the final chapter, we investigate how firms adapt their core strategies when CSiR behavior occurs. The intention behind this study is to explore how firm behavior may change and adapt to shocks in its external environment. To do this, we turn to the M&A literature to investigate how firms may use this method of growth to deflect attention relating to CSiR behavior away from stakeholders. We focus on external growth strategies of firms and specifically M&A, as both literature and practice advance M&As as the preferred inorganic growth strategy (Bauer, Dao, Matzler and Tarba, 2017). For instance, almost 50,000 M&A transactions took place

[4] Government regulators, Congressional staff and members of Congress who, upon leaving these roles take up new positions with lobbying firms and private sector organizations.

worldwide in 2019.[5] However, despite the popularity of M&A as a growth strategy, the chances of success are low, as more than 70 percent of M&As fail over time (Bauer and Matzler, 2014).

The M&A process involves a set of complex negotiations between multiple stakeholders, using significant and valuable resources. Yet despite this, M&A research has overlooked social, environmental and political factors that impact the process. Additionally, most research in this vein has largely focused on shareholders, ignoring important nonmarket stakeholders. It is for this reason that we introduce the nonmarket element in our analysis. In this chapter, we take a different approach and investigate whether firms increase their M&A activity when CSiR behavior is uncovered. Our analysis focuses on the announcement phase of both domestic and cross-border M&As. Specifically, we argue that firms increase their M&A announcements to distract from involvement in CSiR, and that this relationship is moderated by the corporate reputation and political activity of the firm.

Drawing on IST and complemented by signaling theory, we seek to understand why firms engage in external growth strategies like M&A in the face of serious financial and non-financial risk. Signaling theory is primarily linked to the reduction of information asymmetry between the various parties involved in specific business activities (Connelly, Certo, Ireland and Reutzel, 2011). Firms will want to control the message that these actions send to stakeholder groups whenever CSiR occurs. Signaling theory is ideally placed to do so, as increasing M&A announcements may signal to shareholders and other stakeholders that the firm has the necessary ability to grow despite the potentially negative consequences of CSiR.

[5] https://imaa-institute.org/mergers-and-acquisitions-statistics/ (Last accessed February 29, 2020)

In this chapter we developed and tested a series of hypotheses using a Generalized Estimating Equation (GEE) negative binomial specification. The dependent variable in this chapter is the number of M&A announcements, which we built by using information collected from the *Thomson Financial SDC Mergers and Acquisitions* database. We added a second dependent variable from the information gathered on M&A announcements from our dataset, which measures the count of M&A deals announced by the acquiring firm where the target firm is located in a developing country. As in Chapter 3, we included CSiR as our independent variable. Furthermore, we entered *lobbying expenditures* and *corporate reputation* as the key moderating variables of the relationship between CSiR and the number of M&A announcements.

Our results show that there is partially significant negative relationship between CSiR events in *t-1* and the number of announced M&As, that becomes non-significant when we only consider those in which the target company is located in a developing country. Furthermore, we find evidence that engagement in financial CPA deepens the negative relationship between CSiR and the number of M&A announcements. Meanwhile, companies that are highly regarded in the markets—proxied by the firm appearing in the Fortune's *Worlds Most Admired Companies* (WMAC) list—experience a lower reduction in the number of deals announced. This carries important managerial implications. Whereas stakeholders seem to consider that firms involved in CSiR and CPA at the same time may be "doing something shady", they are more forgiving with those that have a better corporate reputation.

1.5 Concluding Remarks

Firms and stakeholders should be concerned about both socially responsible and irresponsible behaviors. While the literature has so far focused on CSR, in this thesis we turn our attention towards CSiR and how it impacts on firm performance and strategic choices. In addition, we account for the insurance-like effects of CPA and corporate reputation in the event of CSiR, or the lack thereof. We now move on to the next chapter, in which we review the IST literature and propose a future research agenda.

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CHAPTER 2 - INSTRUMENTAL STAKEHOLDER THEORY: A LITERATURE REVIEW AND RESEARCH AGENDA

2.1 Introduction

Stakeholder theory is based on the premise that a firm has many interested parties that can affect its success or failure. Freeman's seminal work (1984) argued that taking a stakeholder approach to management is an effective means of dealing with a complex business environment. Since the publication of this influential book, a stakeholder approach to managing a firm's complex environment is more important than ever due to globalization, the prevalence of information technology and social media, and an increased focus on corporate societal and environmental impact (Freeman, Harrison, Wicks, Parmar, and De Colle, 2010).

Questions around the business-stakeholders relationship have come to dominate the business and society literature, with scholars often adopting a multi-disciplinary approach to stakeholder management, bridging sociology, strategic management, political science and international business (Wasieleski and Weber, 2017). Whilst this diversity provides opportunities for a more holistic development of stakeholder theory, it nonetheless comes at a cost.

The key criticism is that this fragmentation of the literature results in a lack of a consistent definition of what stakeholder theory, or indeed what a stakeholder really is. Described as an 'amalgamation of eclectic ideas' and subject to numerous interpretations across a variety of disciplines, this inconsistency has only added complexity to the development of stakeholder theory (Gilbert and Rasche, 2008; Miles, 2017). Other critics have labeled stakeholder theory as being vague and superficial in scope. Indeed, as scholars from business ethics, strategic management to finance have worked towards refining this theory, questions still dominate its application to, and suitability for, real-world ethical business problems (Orts and Strudler, 2009). Therefore, to broaden our understanding and knowledge of the business-society relationship, it is important to recognize how the global business environment has changed, in comparison to the world as it was when Freeman's (1984) work was produced.

For instance, technology has rendered customers more knowledgeable and globally aware of a company's social and environmental footprint. New technology and social media platforms allow faster access to data and almost real-time scrutiny from stakeholders. Prominent well-known brands are developing digital campaigns promoting their socially responsible agenda to engage with stakeholders. Heineken now have 'Brewing a Better World' interactive sustainability reports.[1] Patagonia use supply chain mapping and launched a digital campaign 'Patagonia's Footprint Chronicles' to track and trace interaction with mill's, factories and farms across its supply chain.[2] Adding to this, stakeholder groups outside of the firm such as powerful nongovernmental organizations (NGOs) are fully utilizing social media campaigns to draw attention to firm behavior. Greenpeace for example, have fully embraced social media into their activist agenda. The NGO successfully targeted Lego to end its fifty-year partnership with Shell Oil through its #SaveTheArctic campaign. Part of this campaign launched a YouTube video titled 'Everything is NOT awesome' viewed almost nine million times.[3] The stakeholder literature needs to reflect these changes as firms collaborate with multiple stakeholders who have competing, and complex demands outside of the traditional business arena. But research has scarcely moved beyond the generic function of the economic and financial activities of primary stakeholders. Stakeholder theory and its many perspectives must now be challenged and moved beyond its focus on the shareholder-stakeholder debate. A broader focus on a nonmarket approach, where social and

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1 https://www.theheinekencompany.com/our-sustainability-story/our-strategy-and-achievements (Last accessed August 28, 2020).

2 https://www.patagonia.com/our-footprint/ (Last accessed August 28, 2020)

3 https://www.theguardian.com/environment/2014/oct/09/lego-ends-shell-partnership-following-greenpeace-campaign (Last accessed August 28, 2020).

political stakeholders are accounted for, could extend stakeholder theory both empirically and conceptually (Dorobantu, Henisz and Nartey, 2017).

Confusion also surrounds the interchangeability between stakeholder *theory* and stakeholder *management* (Freeman *et al.*, 2010), with some authors arguing that the abundance of definitions and the contested nature of stakeholder theory in itself provides richness and depth to the literature (Crane and Ruebottom, 2011; Freeman, *et al.*, 2010; Fassin, 2012; Miles, 2017; Stoney and Winstanley, 2001). Nevertheless, as advancements and contributions to stakeholder theory continue, there are still those who see stakeholder theory as a framework, more suitable as a strategic management tool. The implication is that the optimal application of this theory is to identify stakeholders and the claims they have on firms and prioritize these in terms of how they may directly affect the firm (Crane and Ruebottom, 2011; Mitchell, Agle and Wood, 1997).

Unsurprisingly, the highly contested nature of this theory can be associated with divergence as to who exactly can be labelled a 'stakeholder'. Regardless of the debate over it, the original definition by Freeman (1984) still stands, identifying stakeholders as "any group or individual who can affect, or are affected, by the strategic outcomes of the firm". Building upon this definition, the literature has evolved to classify stakeholders into two different groups, commonly labelled as 'primary' and 'secondary'. This is in accordance with the level of interaction with firms, the role each stakeholder group plays, and their potential to impact firm performance (Freeman *et al.*, 2010; Harrison, Bosse and Phillips, 2010; Orts and Strudler, 2009). Primary and secondary stakeholders identify under a broader scope, particularly where firms have an international presence. Stakeholders are more social and political in nature, and these changing characteristics are providing interesting research opportunities (Henisz, Dorobantu and Nartey, 2014). In this thesis we identify primary stakeholders as shareholders, employees, suppliers, customers. Secondary or ‘nonmarket stakeholders as governments and legislators, the environment, local communities, media and nongovernmental organizations (Gardberg and Fombrun, 2006; Hillman and Keim, 2001).

Despite these recent advancements, perhaps the most significant contribution to stakeholder theory came early in the literature (Donaldson and Preston, 1995). Originally rooted in strategic management, scholars began introducing ethical and societal elements to the theory, creating further tensions (Freeman, Phillips and Sisodia, 2020[4]). To combat this fragmentated nature of stakeholder theory, three distinct perspectives were introduced related to how stakeholders and firms interact (Freeman *et al.*, 2010). These perspectives are *descriptive* (detailing what the firm does and how it behaves), *instrumental* (examining the effect of stakeholders on firm performance), and *normative* (explaining how stakeholders should be treated).

Originally introduced by Donaldson and Preston (1995), they helped focus the stakeholder debate and provide much needed clarification. Indeed, some authors credit this work as the first to attempt to systematically identify the theory’s role and methodology (Freeman *et al.*, 2010; Jones, Felps, and Bigley, 2007; Wijnberg, 2000). However, despite contributing significantly to the stakeholder theory debate, it also accentuated the fragmentation of the topic, facilitating competing approaches and assumptions (Freeman *et al.*, 2010; Scherer, 2018).

At its most basic level, stakeholder theory specifies the moral obligation that firms have to their stakeholders, which encourages researchers to take this normative approach, particularly in the business ethics literature (Bishop, 2000; Freeman *et al.*, 2010; Freeman and Phillips, 2002). Donaldson and Preston (1995) argued that the normative approach is central to stakeholder theory,

[4] It shall be noted that this paper entered our analysis because it was first published online in 2018.

relegating the descriptive and instrumental to a more subordinate role. Yet arguably stakeholder theory is, in essence, grounded in strategic management. Despite some scholar's preference for the normative or ethical approach, it is the instrumental perspective that is of greater relevance in stakeholder performance debates. Value creation in the face of global environmental challenges, corporate negligence and misconduct, and social issues bring new challenges to firms that require innovative solutions. Indeed, political activity, climate change, board diversity and equitable working conditions are listed as the top issues concerning shareholders and firms in 2020.[5] Defined as "a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate goals" (Donaldson and Preston, 1995: 67), an instrumental strategic approach to stakeholder engagement can perhaps provide opportunities for industry and academia alike.

With this in mind, and despite the normative approach being more relevant in the past, there is a renewed interest in instrumental stakeholder theory (IST) (Bridoux and Stoelhorst, 2014; Henisz *et al.*, 2014), which comes at a time when firms are under increased pressure to consider non-primary stakeholder needs and expectations and are ever more accountable for their actions and impacts. Firms' efforts to establish stakeholder trust and credibility is increasingly important for value creation, as they face increased competition, scarcity of resources and pressure for regulatory and legal compliance (Gilbert and Rasche, 2008; Marens and Wick, 1999; Pierce and Aguinis, 2015).

The instrumental concept was further extrapolated on by Jones (1995), whose seminal contribution to the theory established the core idea behind IST: that firms will achieve a sustainable

[5] S&P Global Market Intelligence: https://www.spglobal.com/marketintelligence/en/topics/ (Last accessed March 25, 2020).

competitive advantage by developing relationships with stakeholders based on traditional ethics such as fairness, loyalty and respect (Jones, 1995; Jones, Harrison, and Felps 2018). We argue that although the work of Jones (1995) contributed significantly to the instrumental perspective, it is not without limitations. Taking an approach similar to agency theory, this seminal paper equates stakeholder engagement with contracts, both implicit and explicit. Yet the focus is on primary stakeholders, largely ignoring nonmarket or secondary stakeholders. The assumptions in this paper, that firms will engage fairly with stakeholders on an ethical contract basis and achieve corporate goals to the satisfaction of all involved, focuses only on the behavior and impact of the firm. It omits how dissatisfied stakeholders can in turn retaliate against firms. We believe this virtually one-sided debate is a contributing factor in hampering the development of IST, narrowing the focus on who stakeholders are and their importance to the firm. The paper discusses how the firm can sanction its stakeholders if contracts are deemed to have been broken but overlooks nonmarket stakeholders' ability to sanction the firm.

How to best manage the stakeholder-firm performance relationship is a question that has yet to be resolved (Epstein, Buhovac, and Yuthas, 2015; Garcia-Castro and Francoeur, 2016). From a strategic perspective, developing stakeholder relations leads to improved shareholder value (Hillman and Keim, 2001). But this comes with challenges. Changing characteristics and priorities of stakeholders, specifically nonmarket ones, have in some ways shifted the balance of power between primary and secondary stakeholder groups. Stakeholders have increased access to corporate information, and with this increased awareness comes the ability to punish firms for perceived grievances (Barnett, 2014). It is this perspective that we will pursue throughout the thesis, as we investigate the scope and limitations of firms when strategically engaging with stakeholders, examining how to manage situations fairly and effectively, whilst maintaining value creation.

In this chapter, we review the IST literature, offer a critical summary of the advances in the area, and suggest future avenues for research. To that end, we have identified and reviewed 109 articles published between 1995 and 2019. We have chosen 1995 as the point of departure because the pioneering research on IST was published in that year. Building on the categorization used by Laplume, Sonpar, and Litz (2008) in their stakeholder theory review, our findings show that IST research can initially be divided into four groups: 1) *Identification and salience*; 2) *Firm performance*; 3) *Corporate social responsibility (CSR)*; and 4) *Theory debates*. We advance the extant research by identifying a fifth theme, *corporate social irresponsibility (CSiR)*, which has been largely overlooked within IST.

Our aim is to emphasize the importance of nonmarket stakeholders and how their potential to retaliate against firms could severely damage the core ethos of IST. This chapter will proceed as follows. First, we address the methodological approach taken for this review. Second, we identify the emerging themes that chart the research trajectory of IST. This will be followed by a discussion of the overall IST perspective and suggestions for future research opportunities. The research undertaken in this chapter sets the main theoretical approach in the following chapters of the thesis.

2.2 Research Design

2.2.1 Sample

The scope of this review includes articles published in peer reviewed journals. Therefore, we have not considered other types of publications such as book chapters and conference papers. To ensure a focus on methodologically and theoretically sound papers, we restricted inclusion in the sample to those published in journals rated 3* and above in the ABS Academic Journal Guide 2019.[6] Specifically, we focused on the journals belonging to the fields of *International Business and Area Studies*; *General Management, Ethics, Gender and Social Responsibility;* and *Strategy*. Overall, the review accounts for papers published in 31 leading peer-reviewed journals, which are featured in Table 1 below.

Table 2.1. List of journals included in the study.

INTERNATIONAL BUSINESS AND AREA STUDIES	
Journal	**Ranking**
Journal of International Business Studies	4*
Journal of World Business	4
African Affairs	3
Asia Pacific Journal of Management	3
International Business Review	3
Journal of Common Market Studies	3
Journal of International Management	3
Management and Organization Review	3
Management International Review	3
GENERAL MANAGEMENT, ETHICS AND SOCIAL RESPONSIBILITY	
Journal	**Ranking**
Academy of Management Journal	4*
Academy of Management Review	4*
Administrative Science Quarterly	4*

[6] For more information on the ranking, please refer to: https://charteredabs.org/academic-journal-guide-2018-view/ (Last accessed July 27, 2020).

Journal of Management	4*
Academy of Management Annals	4
British Journal of Management	4
Business Ethics Quarterly	4
Journal of Management Studies	4
Academy of Management Perspectives	3
Business & Society	3
California Management Review	3
European Management Review	3
Harvard Business Review	3
International Journal of Management Reviews	3
Journal of Business Ethics	3
Journal of Business Research	3
Journal of Management Inquiry	3
MIT Sloan Management Review	3
STRATEGY	
Journal	**Ranking**
Strategic Management Journal	4*
Global Strategy Journal	3
Long Range Planning	3
Strategic Organization	3

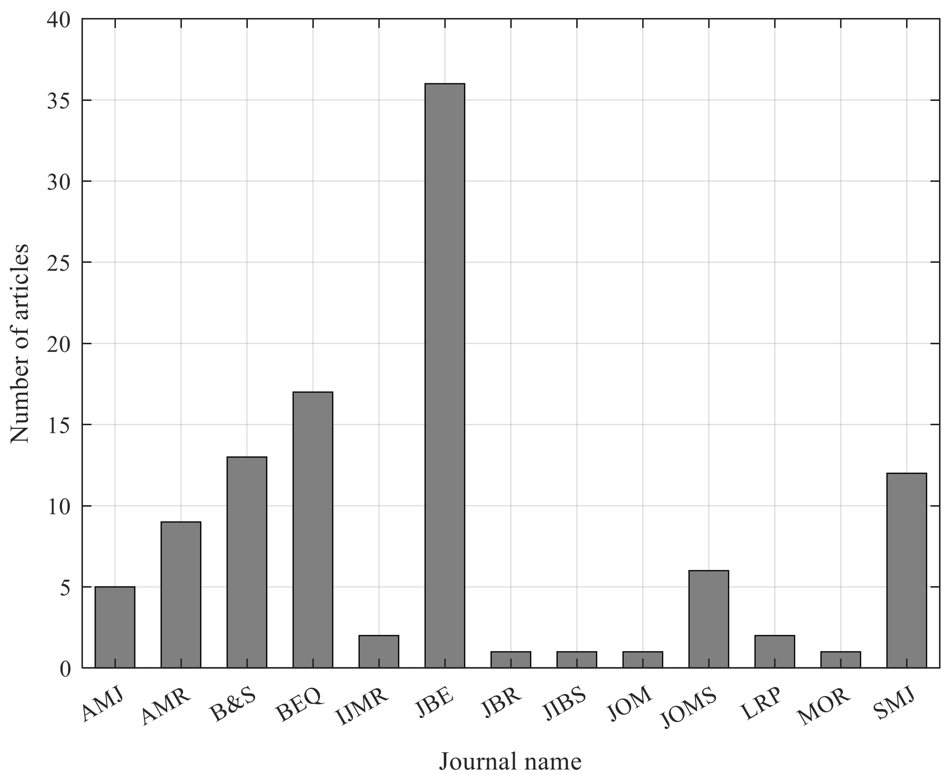
The analysis covers papers published between 1995 and 2019. We set 1995 as the starting year because this is when the first papers addressing IST were published by Donaldson and Preston (1995) and Jones (1995). After deciding on the journals and timeframe, we specifically used the term ‘instrumental stakeholder theory’ to appropriately identify the relevant papers. We searched Web of Science, Google Scholar, and the journal vaults of the focal journals. However, our original results did not provide significant results for the purpose of this chapter. Using the specific keyword ‘instrumental stakeholder theory’, timeframe ‘1995-2019’, and ‘title’ our results produced 5 academic papers directly related to IST research. To widen our search, we refocused our criteria to include ‘abstract’, again providing very few results, adding only 12 papers. Due to the very low results found we amended the keyword search to include ‘topic’ to identify the relevant academic papers, resulting in a significant increase in IST related papers.

Following these guidelines, our search resulted in 254 papers. We refined this search by applying the filter ‘articles’ to exclude book chapters, conference papers, and book reviews. Building on this, we applied two further filters to identify papers related to ‘business’ and ‘management’ subjects, narrowing the results to 219 papers. We read all the papers to establish the extent to which each of them discussed IST. To accomplish the objective of this review, we only selected those studies explicitly addressing the instrumental approach to stakeholder management. We eliminated a significant number of papers that fell outside of our search criteria. These included those papers not published in our list of identified journals. Also, we discovered that our keyword search picked up ‘instrumental variable’ in a significant number of papers during our original search. The final result identified 109 academic papers investigating an instrumental approach to stakeholder management. We elaborated five tables listing these papers—one per each theme identified in the IST literature—that contain the name of the author(s), year of publication, journal, title and methodology used (please refer to Appendix 1 for the complete list).

Journal and year distribution. Figure 1 represents the distribution of the IST articles identified across the selected journals. Most of these articles have been published in journals devoted to social responsibility and ethics; namely, *Journal of Business Ethics* (38%), *Business Ethics Quarterly* (18%) and *Business & Society* (11%). Among the general management research journals, *Academy of Management Review* tops the number of publications in our sample (9%). In addition, *Strategic Management Journal* is the strategy outlet with the highest number of publications on IST (6%).

It is clear that special interest journals have advanced much of the research concerning the instrumental perspective of stakeholder theory. However, one of the most striking findings from this table is the lack of papers in the area of International Business (only *Journal of International Business Studies* has published a paper on the topic). This opens numerous opportunities for future research that we will further highlight in the remainder of this review.

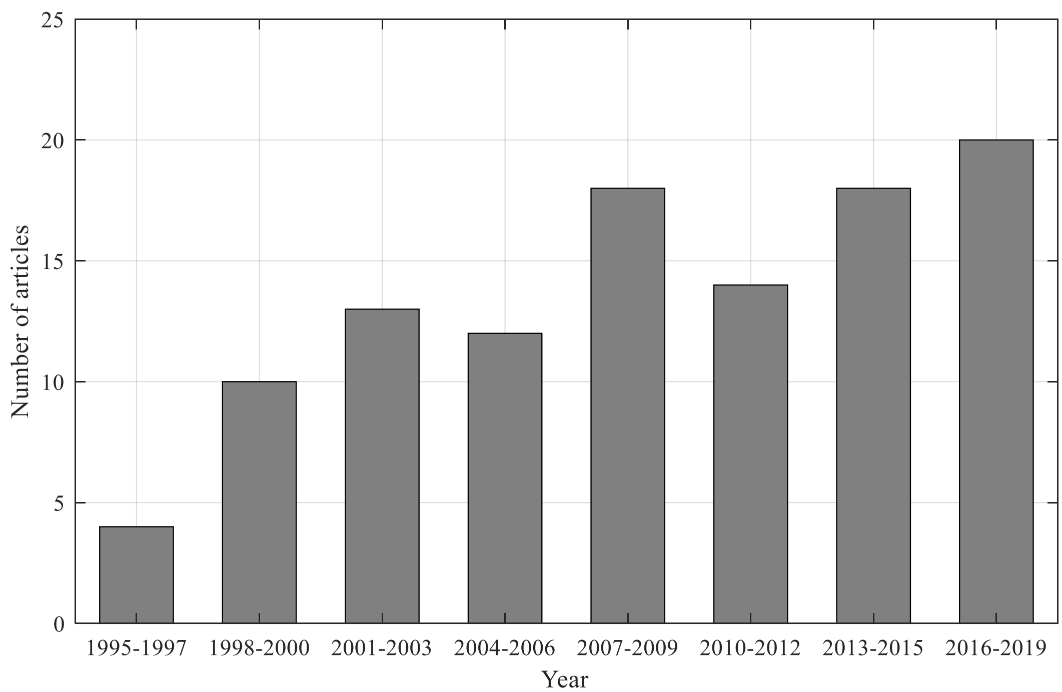
Figure 2.1. Distribution of articles by journal.



Journal names: AMJ (*Academy of Management Journal*); AMR (*Academy of Management Review*); B&S (*Business & Society*); BEQ (*Business Ethics Quarterly*); IJMR (*International Journal of Management Reviews*); JBR (*Journal of Business Research*); JIBS (*Journal of International Business Studies*); JBE (*Journal of Business Ethics*); JOM (*Journal of Management*); JOMS (*Journal of Management Studies*); LRP (*Long Range Planning*); MOR (*Management and Organization Review*); SMJ (*Strategic Management Journal*).

Apart from the publication outlets, we were interested in analyzing the distribution of the IST articles in our sample according to their year of publication. Figure 2 represents this evolution.[7] Donaldson and Preston (1995) and Jones (1995) are the pioneers in the discussion of the instrumental approach to stakeholder management. The number of studies in the topic then experienced a steady increase up until 2007/2009, when it surged. From then on, the number of IST papers published each year has remained stable.

Figure 2.2. Distribution of articles by year of publication.

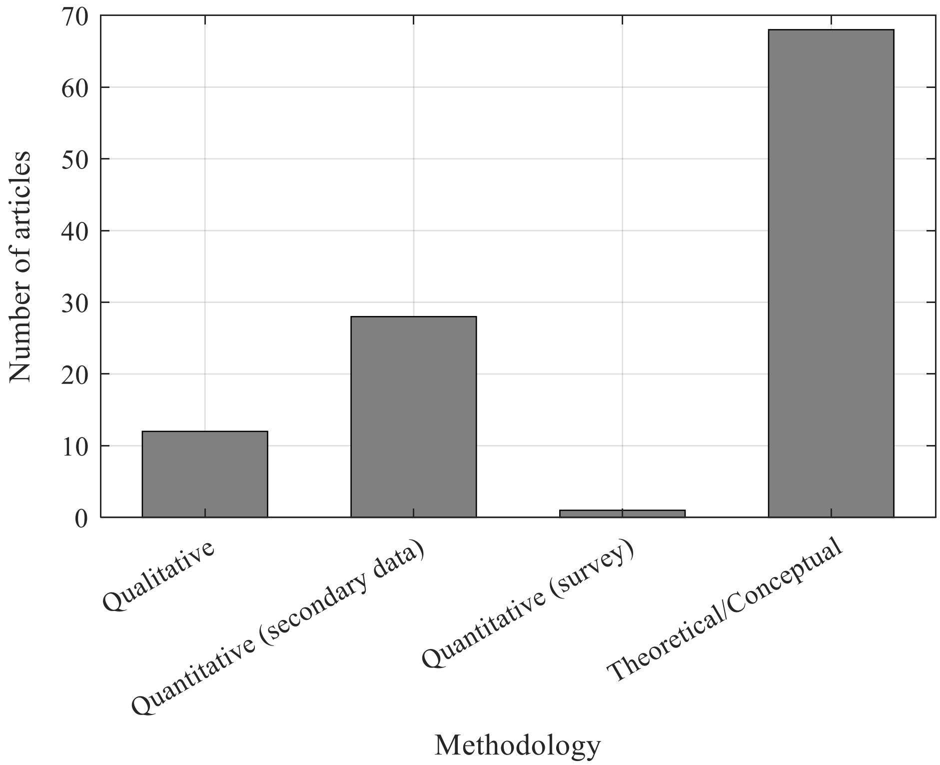


Methodological focus. Figure 3 illustrates the distribution of articles based on the methods applied. The bulk of the papers in the sample have a theoretical focus (61%). Among the empirical articles, 11% focused on qualitative methods. The remaining articles opted for quantitative analyses

[7] Please note that we have taken three-year time intervals to improve the clarity of the figure.

based on either secondary data (27%) or surveys (1%). These figures show that future research could try to shed more light on IST from an empirical perspective.

Figure 2.3. Distribution of articles by methodology.



2.2.2 Analytical method

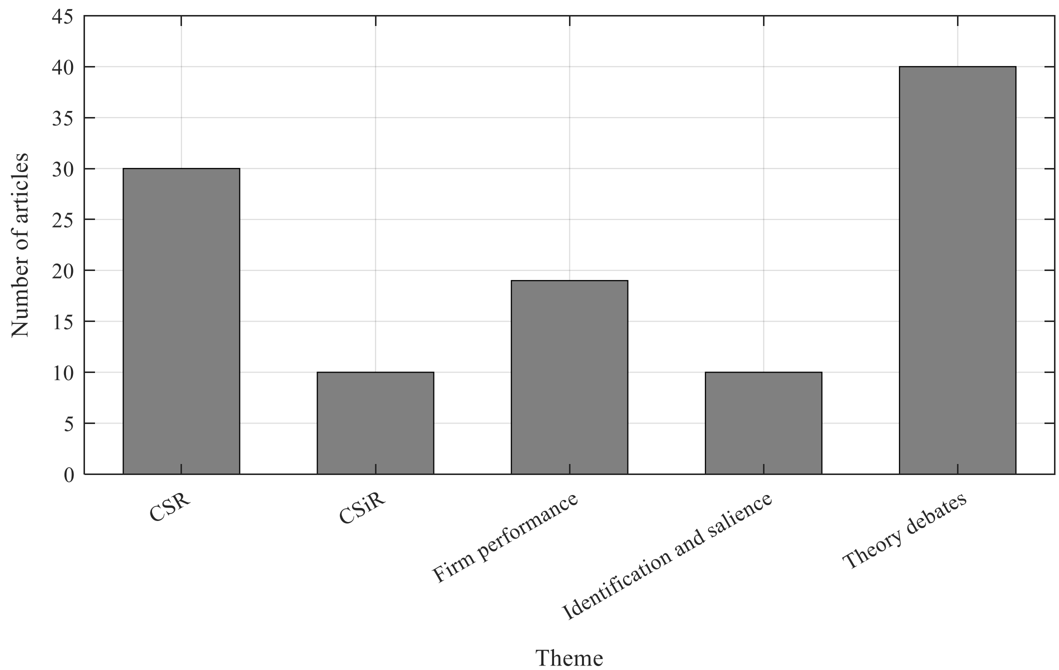
A basic online search into stakeholder-related topics demonstrates the vast magnitude of the topic (Freeman, 2017). Even after establishing the parameters mentioned in the above subsections, we identified a significant number of papers to be reviewed. For this reason, we decided to use content analysis to survey the literature on IST, which is the preferred method in recent literature reviews (e.g. Carroll and Shabana, 2010; Laplume *et al.*, 2008; Pisani, Kourula, Kolk, and Meijer, 2017).

Content analysis is quickly becoming a popular method for qualitative and quantitative analyses in management research (Gaur and Kumar, 2018). It enables the researcher to identify and summarize the trends in the literature (Duriau, Reger, and Pfarrer, 2007; Short and Palmer, 2008), and with suitable computer-aided techniques can produce large volumes of data (Krippendorff, 2004). The next step in the review process was to read all papers identified. This allowed us to identify and summarize the literature trends to break down the research into specific categories. The process involved conducting a manual content analysis in which we identified keywords in the title, abstract and main body of each paper to discover the specific research topic. This process included developing a coding scheme that could be applied across all papers included in the review (Gaur and Kumar, 2018). The coding scheme included: (1) specific discussion of IST, (2) references of Donaldson and Preston (1995) and/or Jones (1995) and (3) key words inclusive of 'stakeholder'; 'firm performance'; 'management'; 'corporate social responsibility'; 'salience' and 'theory'. By applying this process, we were able to identify themes throughout the papers included in the review process.

2.3 Major Themes in Instrumental Stakeholder Theory

The chapter is built on the process used by Laplume *et al.* (2008), who conducted an extensive review of stakeholder theory. By applying similar techniques to systematically review the IST articles included in our study allowed us to identify four broad themes: 1) *Identification and salience*; 2) *Firm performance*; 3) *CSR*; and 4) *Theory debates*. Our research has further identified a fifth theme, *Corporate social irresponsibility (CSiR)*. Figure 4 shows that only 8% of the articles in the review revolve around identification and salience. Along similar lines, CSiR accounts for 8% of the articles reviewed in the literature. A higher number of studies address the topics of firm performance (17%) and CSR (31%). However, theory debates have drawn the most attention, accounting for 41% of the papers included in the sample. The following subsections provide a detailed discussion of each identified theme.

Figure 2.4. Distribution of articles by main theme.



2.3.1 Identification and salience

The basic understanding of stakeholder salience stems from Freeman's original definition of a stakeholder being "any group or individual who can affect or is affected by the achievement of the organization's objectives" (1984: 46). This led to several articles contributing to the debate around the stakeholders that deserve the most attention. Mitchell *et al.* (1997) provided the most comprehensive approach to this debate with their three-factor model of *power* (to shape the behavior of the firm), *legitimacy* (of the stakeholder in relation to the firm), and *urgency* (seriousness of the claims made by the stakeholder). The scope of stakeholder identification has widened in recent years as firms continue to become more active across different geographical boundaries (Crilly, 2011; Devinney, McGahan, and Zollo 2013). Yet no significant attempt has been made to address this issue from an instrumental perspective and there is still a small number of papers directly addressing stakeholder influence and engagement.

In early research, Phillips (1997) and Van Buren (2001) discussed instrumental aspects of stakeholder theory in terms of the ‘principle of fairness’ and integrative social contracts theory, elaborating on the expected contributions of firms in terms of their impact on society. Under this guise, the authors attempted to identify important stakeholders through mutual benefit, justice, cooperation, and voluntary acceptance. Both papers struggled to clearly identify the most important stakeholder groups to the firm. Nonetheless, they acknowledged the negative repercussions that firms suffer if they are unable to adequately identify the correct groups. Questions arise concerning who is vulnerable, who holds the position of power and what is at stake. A broad definition of stakeholders is taken here with references to secondary stakeholders and the relevance of micro- and macro-contractors, which begins to highlight briefly the impact and importance of multinational enterprises (MNEs) extending beyond political and geographical boundaries. While both papers clearly take a normative approach to business ethics, they note that IST is crucial to strategic planning in terms of meeting long-term goals and objectives.

Following up on the debate around stakeholder saliency, Kaler (2003) discussed the implications the shareholder-stakeholder debate, building on the typology of stakeholder theories (instrumental, descriptive and, normative). The paper addressed the question of what, if anything, is gained by taking a stakeholder approach to business. The key takeaway is the increasing importance of non-shareholder stakeholders and the extent to which their interests are morally required to be fulfilled relative to those of shareholders.

As the literature evolves, there is a clear increased interest in understanding the importance of secondary stakeholders to the firm. Reynolds, Schultz, and Hekman (2006) addressed this issue from an individual perspective, examining how managers distribute scarce resources to those who have a legitimate claim on the organization. By balancing stakeholder interests, managers can pay attention, maintain support, and identify the needs of each stakeholder group. Attempting to advance knowledge on the impact that stakeholders have on firm performance, Eesley and Lennox (2006) explored the responses of secondary stakeholders to firm actions. Shortly after, Su, Mitchell, and Sirgy (2007) investigated the role of *guanxi* (Chinese term used to label interpersonal connections) in achieving business success. Both papers state that firms who adopt more socially and environmentally conscious policies take a broad approach to stakeholder identification that will ensure corporate goals are met. In this regard, following an instrumental stakeholder approach will allow for greater efficiency and effectiveness, increased legitimacy, and reduced conflict (Driscoll and Starik, 2004; Tashman and Raelin, 2013).

Mitchell, Lee, and Agle (2017) have recently summarized the works that have contributed to extending the concept of stakeholder salience. This review brought to light some shortcomings in the research to date, most notably concerning the economic assumptions of the model, stakeholder inclusiveness, and lack of integration between the stakeholder prioritization literature and other stakeholder-related work. We add a fourth shortcoming to this list, in that research around identification and saliency has so far paid little attention to the relationship between stakeholder management and firm performance beyond a descriptive analysis of who, what and how firms can achieve this. The core argument of IST claiming that the "development of mutual trust and cooperation between firms and stakeholders is expected to lead to competitive advantage" (Su *et al.*, 2007: 316) remains unproven. Most of the research conducted is theoretical, with just two papers taking an empirical approach. As a result, conducting more empirically focused work is necessary to gain a more in-depth and detailed knowledge of the topic.

2.3.2 Firm performance

As explained in the prior subsection on identification and stakeholder saliency, it is important to assess the impact of stakeholders on firm performance. The research concerning firm performance and IST revolves around the following question: “does a one-dollar investment in a stakeholder group return more or less than one dollar in benefit to the firm?” (Garcia-Castro and Francoeur, 2016: 406).

Pioneering work on the topic addressed stakeholder influence and examined the potential conflicts of interest between shareholders and non-shareholder stakeholders. Ogden and Watson (1999) studied this through the process of privatization of the UK water industry, focusing on how these new companies would address stakeholder issues. Using financial performance and customer service performance measurements, the authors found evidence that improving firm relationships with stakeholders came at a cost for shareholders. However, to sustain a long-term competitive advantage, it is necessary to commit to non-shareholder stakeholders as this improves the legitimacy and reputation of the firm. Building relationships based on trust and cooperation is seen as an opportunity to exploit economic interests that will lead to a competitive advantage. Berman, Wicks, Kotha and Jones (1999) and Heugens, Van Den Bosch and Van Riel (2002) also analyzed the relationship of firms with their primary stakeholders, stating that these groups have the most influence over resource allocation.

Although in the early years since the introduction of IST there were some papers addressing how stakeholders can influence the success of businesses, scholars took primarily a normative focus (Hosmer and Kiewitz, 2005). As research into IST advanced, researchers explored new topics such as corporate identity (Berrone, Surroca, and Tribó, 2007); perceptions of justice (Hosmer and Kiewitz, 2005); and entrepreneurship and innovation (Harting, Harmeling, and Venkatara, 2006).

This impacted the scope of the definition of stakeholder groups. Research began to expand to examine the effects of local communities and the natural environment (Kobeissi and Damanpour, 2009) and the relationship between corporate social performance and multinationality (Bouquet and Deutsch, 2008).

Emphasis on corporate scandals in the early 2000s is a recurring theme behind the increased interest in IST, though again through the prism of the normative perspective of stakeholder theory (Cennamo, Berrone, and Gomez-Mejia, 2009; Harrison, *et al.*, 2010; Kobeissi and Damanpour, 2009). Firm misbehaviors brought to attention the need to account for different expectations, rules, norms and culture of stakeholder groups and the need to balance a diverse set of interests across national boundaries. Stakeholder engagement as a means of sustaining competitive advantage has become much more than just a symbolic gesture with the increase of public attention to social and environmental issues. Developing close ties to stakeholders based on mutual trust and cooperation creates intangible benefits that are difficult to imitate and should be used to further the firms' strategic agenda (Harting *et al.*, 2006).

Firms are gradually looking towards building legitimacy by developing its stakeholder relationships as a means of improving social and moral capital. However, there is a dark side to it, as some studies question whether ethics and corporate activities designed to improve financial performance can coexist. Cennamo *et al.* (2009) investigated this from the managerial perspective, seeking to understand under what conditions individuals were more likely to engage in self-interested behavior. Meanwhile, Bosse, and Coughlan (2016) investigated the reasons why a stakeholder might be willing to continue a relationship with the firm. Both papers expressed that ethical business policies will improve performance, build reputation and social legitimacy, enable access to scarce resources and create competitive advantage that is difficult to imitate. Furthermore, both papers addressed the fact that there is a hidden cost to stakeholder management since firms may have limited information on their stakeholder groups, which is bound to result in conflict that has long-term repercussions given that the firm may not adequately address each group's concerns.

A final group of papers revolving around firm performance in the context of IST has begun to examine areas connected to nonmarket strategy, which emphasizes the importance of recognizing socio-political stakeholders and the environment where they operate. Nowadays, business activities are scrutinized at a global scale, which has motivated many firms to look at their corporate social performance as a response to these external pressures. Indeed, it is becoming increasingly important to factor in social and environmental issues in long-term strategic orientation to improve economic performance (Chiu and Sharfman, 2011; Garcia-Castro, Ariño, and Canela, 2011).

The above is particularly salient in industries that heavily affect society and the natural environment, such as the extractive industries. Heinz, Dorobantu, and Nartey (2014) and Verbeke, Osiyevskyy, and Backman (2017) addressed the increased pressure from nonmarket or secondary stakeholders. Each paper provided empirical evidence that confirmed the need for examining all forms of stakeholder conflict and cooperation for certain projects to succeed. It is necessary to offer political and social support for firms to improve their financial and operational objectives. Both papers stated that continued support from external stakeholders is a key driver in securing long-term financial performance and sustainable competitive advantage. The results from these papers provide empirical evidence suggesting that stakeholder engagement is key to long-term financial and non-financial success. Yet despite clear signs firms see increased performance benefits and the renewed academic interest in IST, questions remain regarding why IST is not a dominant strategic approach (Jones *et al.*, 2018).

2.3.3 Corporate social responsibility

A final set of papers addressing the importance of social stakeholders to achieve better outcomes links to the third major theme in IST: the debate concerning CSR and stakeholder management. CSR has drawn the attention of scholars for decades, spanning across multiple disciplines seeking to ether define the term or find a financial justification for firms incorporating socially responsible activities into their operations. It should be noted that some IST studies have addressed this issue by examining the link between corporate social performance and corporate financial performance (Margolis and Walsh, 2003; Orlitzky, Schmidt and Rynes, 2003; Waddock and Graves, 1997; Wang, Dou, and Jia, 2016). In the systematic review of stakeholder theory conducted by Laplume *et al.* (2008), the authors briefly included the corporate social performance-corporate financial performance link as part of their discussion of IST. The papers analyzing this relationship could arguably be covered to discuss how firms may be instrumental in their approach to stakeholder management. However, following alongside the logic laid out by Laplume and colleagues and given that our methodological approach discards studies that do not directly address IST, we have chosen to exclude these studies from our review. This is in line with our aim to unearth how IST has evolved and discover future avenues of research in the topic.

Very few articles addressed CSR in the five years after Donaldson and Preston (1995) introduced IST. It was not until the early 2000s that further research was conducted on this theme, covering a range of topics from sustainable development (Steurer, Langer, Konrad, and Martinuzzi, 2005) and corporate citizenship (Windsor, 2006) to NGO activism (Doh and Guay, 2006). As previously mentioned in this review, the actions of companies are becoming increasingly scrutinized. As such, being the underlying assumption that taking an instrumental approach to stakeholder management will allow firms to improve their performance, engaging in CSR should allow companies to send positive signals about the goodness of their actions.

Creating long-term competitive advantage has been a key aspect in the business and society literature as firms have attempted to reconcile its responsibility to shareholders with responsibility to the wider community. Better known as the business case for CSR, academics have broached this concept in numerous ways, claiming that social activity is only acceptable if it is consistent with wealth creation (Garriga and Melé, 2004). In fact, Baden and Harwood (2013) explored the terminology used in CSR and found that the business case is becoming the dominant driver for CSR research. This is key to the instrumental debate since firms assess the tradeoff between improving financial performance and the cost of stakeholder engagement. In this regard, Barnett (2007) examined the different effect of CSR on financial performance across industries and time, proposing a conceptual framework to help understand the business case for CSR that incorporates stakeholder influence capacity and stakeholder relations.

The business case for CSR is well aligned with the instrumental perspective of stakeholder theory since creating trust for financial gain is key to both areas of research. As the number of corporate scandals plaguing the business grew in number, a stream of research began examining the dark side of business activities and the potential risks firms encounter with deregulated markets, transition economies and globalized markets (Gond, Palazzo, and Basu, 2009). The scope of the research also started to expand to draw attention to the growing interest in cross-national comparisons of CSR strategy and how MNEs execute CSR across national boundaries. Aguilera, Rupp, Williams and Ganapathi (2007) discussed this by reviewing the different levels of CSR and stakeholder engagement and why firms are becoming increasingly active in CSR activities. The authors examined the role of MNEs as well as different institutional and cultural effects on CSR, regulatory issues, business practices and employee attitudes when operating across national boundaries.

Taking this strategic approach to CSR links the importance of stakeholder engagement to the financial and non-financial successes and failures of firms. Because stakeholder management requires both financial and human resources, effectively managing different stakeholder needs and demands can bring significant benefits (Waldman and Siegel, 2008). These strategic benefits are generally tied to improved reputation, increased efficiency, and increased competitive advantage as well as value creation. Surroca, Tribó and Waddock (2010) discussed how a firm's intangible resources can mediate the relationship between CSR, thus improving overall performance. Drawing on the instrumental approach this study built on earlier works by Orlizky *et al.* (2003) and offered empirical data proving that firms that develop close ties with stakeholders ultimately improve performance and attain stated corporate goals. Furthermore, Husted, Allen and Kock (2015) attempted to push CSR away from more normative roots to align this concept more closely with IST by partnering with social projects, again creating value for the firm.

This then raises questions concerning whether firms should take a broad or narrow approach to stakeholder management. Jamali (2008) and O'Higgins (2010) attempted to unravel how performance metrics help firms identify stakeholder issues that can be used as a data management tool to gather and compare information within and across industries. Meanwhile, Crilly (2011) focused on firms taking either a shareholder- or stakeholder-centric approach to managing their subsidiaries. At this stage, the literature seemed to advocate for a more holistic and balanced approach to stakeholder management as an imperative for firm survival. This helped bring attention to a wider range of stakeholder groups, such as secondary stakeholders (Crilly, 2011; Signori and Rusconi, 2009; Wang and Qian, 2011).

The importance of secondary stakeholders became more prominent as research in the business and society literature took a political turn. Mäkinen and Kourula (2012: 663) stated that the stakeholder approach "blurs the boundaries between the political, social and economic spheres of society". Wang and Qian (2011) examined corporate philanthropy as a means of gaining political access to achieve socio-political legitimacy, enhancing a firm's reputation and providing access to critical resources. This paper discussed the positive and negative results that corporate philanthropy might offer firms, and how they are using it to build social and political capital. The authors stated that not every firm benefits from this form of donation since, despite its merits, it may divert critical resources away from specific operations. Linked to this, the political CSR literature provided an interesting turn in the IST research, even if works like Whelan (2012) warned that this stream of research is not always clear. Applying political activities and processes to the CSR debate potentially creates confusion on firms' motivations, questioning if it is taking a stakeholder or shareholder model of governance. Recent works by Frynas and Stephens (2015) and Scherer (2018) have reviewed the literature in an attempt to clarify and integrate different phenomena, stating that political CSR needs to make its value explicit, and emphasizing the implications for social welfare.

We may conclude this subsection by acknowledging the criticisms of the use of stakeholder theory (and the instrumental approach specifically) in trying to explain why firms behave responsibly. Orts and Strudler (2009) stressed the point that this is an overused theory, especially concerning the strategic importance to business ethics. This viewpoint causes tension in the theory, particularly among scholars debating the merits of applying either an instrumental or a normative approach to stakeholder theory (Freeman *et al.*, 2020; Wicks and Harrison, 2017). The normative perspective was initially promoted as the dominant approach of stakeholder theory, which in some ways may have diminished the advancement of IST as a standalone theory (Donaldson and Preston 1995).

Applying a purely instrumental approach to CSR and/or ethics is potentially problematic, as treating stakeholder groups as a means to an end will not foster long-term trust and commitment (Gond *et al.*, 2009; Osuji, 2011). Moreover, the confusion to clarify who and what exactly is a *stakeholder*, and how each stakeholder type matters to the firm, further hinders the development of IST. Though we see some progress on this debate—particularly the advancement of research that considers both primary and secondary stakeholders—the current lack of agreement impedes the conceptual development of IST (Driscoll and Starik, 2004; Hillman and Hitt, 2003; Stoney and Winstanley, 2001). Adding to this, Jones *et al*. (2018) have recently criticized a lack of theoretical and empirical research proving that IST does indeed provide a competitive advantage. The core ethos of IST is to build relations with stakeholders to gain competitive advantage, yet if the firm is unable or unwilling to identify the necessary groups, this may hinder the firm's objectives and damage future relations. Finally, though we discuss realigning IST to its strategic management roots, this could prove more difficult than originally expected, given how challenging it is to reconcile this strategic perspective with more socially conscious set of stakeholders (Wicks and Harrison, 2017).

2.3.4 Theory debates

Since the term 'stakeholder' evolved into a theory, it has been met with criticism surrounding the conceptual confusion in its interpretations, generalizations, and definitions (Stoney and Winstanley, 2001). As mentioned at the beginning of this paper, Donaldson and Preston (1995) tried to reconcile the stakeholder theory debate by developing a typology of stakeholder approaches (normative, descriptive, and instrumental). Even if the classification offered some clarity and provided a new avenue for research, it also opened a debate on the most appropriate approach as the foundation of stakeholder theory overall (Freeman *et al.*, 2010; Kaler, 2009; Wicks and Harrison, 2017).

The original contribution by Donaldson and Preston (1995) stated that the normative approach can be considered the fundamental basis for stakeholder theory. Nonetheless, shortly after the publication of their work, another seminal paper by Jones (1995) championed the instrumental approach. The author stated that trust, trustworthiness, and competitiveness lie at the core of IST. As such, building relationships with key stakeholder groups that are exclusive to the firm and difficult to replicate will result in a long-term competitive advantage.

Early contributions seemed to be consumed with debating which approach to take, resulting in little progress being made beyond identifying the three classifications and discussing the dominant paradigm. As an example, Reed (1999) used a critical theory perspective to address issues about stakeholder identification, responsibilities owed to each group, and how to resolve disputes. Though this paper advocated for the normative approach, it elaborated on the instrumental aspects of stakeholder management, which highlights the overlap and mix-up of these two dimensions of stakeholder theory. Increasing the confusion between the two streams, works produced in the late 1990s and early 2000s seemed to debate the normative perspective of stakeholder theory yet add to the instrumental debate. Stoney and Winstanley (2001) provided a timely review that highlights the conceptual misunderstanding and vagueness derived from the lack of consistency in articles published at that time. This became more noticeable as academics began including additional topics into the research domain, such as stakeholder agency theory (Shankman, 1999); philosophy, ethics and politics (Wijnberg, 2000); and stakeholder capitalism (Freeman, 2000; Freeman and Philips, 2002).

As research progressed, contributions started focusing on clearly identifiable areas of strategy, business ethics, corporate governance, and CSR (Hendry, 2001; Stoney and Winstanley, 2001), placing more emphasis on balancing stakeholder interests and the importance of long-term objectives to improve stakeholder engagement. Jawahar and McLaughlin (2001) brough this long-term approach to the fore by highlighting the relevance of the organizational life cycle in connection to stakeholder management. As with CSR, the business case for stakeholder engagement became a popular topic to pursue in theory debates, with authors aiming their attention at distinguishing between stakeholder groups, the legal responsibilities of the firm, and stakeholder capitalism (Cragg, 2002; Freeman, 2000; Friedman and Miles, 2002; Gibson 2000). This reignited the shareholder versus stakeholder debate once again, while the normative and instrumental dimensions of stakeholder theory still remained at odds.

In an attempt to bring together an increasingly fragmented literature, Freeman and Phillips (2002) drew from the "libertarian roots" of the normative and instrumental approaches to construct what they labeled as *stakeholder capitalism*. More importantly, the paper began to underline the importance of stakeholder engagement at a global level and secondary stakeholder groups. Consequently, the theoretical discussion on stakeholder engagement increasingly veers towards questions about stakeholder influence and legitimacy.

Friedman and Miles (2002) distinguished between different stakeholder groups and the dynamic nature of their relationships with the firm. The authors sought to underscore the importance of nurturing the firm-stakeholder relationship to offset potential negative and conflicting outcomes. Rowley and Moldoveanu (2003) changed the perspective from the firm to the stakeholder in analysis of whether and how stakeholders mobilize to influence firm outcomes.

The authors acknowledged that some of them may have conflicting interests due to their participation in more than one stakeholder group, thus affecting their likelihood of mobilization.

Nonetheless, stakeholder groups can also collaborate. Butterfield, Reed, and Lemak (2004) conducted an inductive qualitative case study to gain a deeper understanding of these collaborations, looking at both primary and secondary groups. Although they aimed to extend the descriptive angle of stakeholder theory, they also contributed to IST by addressing the need for proactive collaborative relations between firms and their external stakeholder groups with the express aim of improving firm performance. O'Connell *et al.* (2005) took this further as they explored the role of stakeholder activism on firm performance. This paper began to question whether stakeholders can rely upon the good intentions of the firm or if addressing stakeholder concerns is just pure artifact to appease certain groups who have the potential to negatively impact firm performance.

Despite taking a proactive role in stakeholder engagement seemingly being essential to firm survival, the approach can vary across firms and industries. Some have advocated for a form of global governance or a form of standardized ethics as research has shifted to account for global stakeholders and the role of MNEs. Scherer, Palazzo, and Baumann (2006) discussed this as they examined MNEs taking more 'state like' responsibilities, asking whether firms should create global rules or voluntary codes of conduct to account for the citizens' rights rather than fixating on shareholders. This was further examined by Gilbert and Rasche (2008) when analyzing the opportunities and downsides that can arise from having a set of standardized ethics initiatives.

The theoretical discussion on business ethics and how it intertwines with IST continued for the remaining of the 2000s decade. Wagner-Tsukamoto (2005, 2007) examined how the creation of ethical capital allows companies to profit beyond legal and ethical compliance as defended by the shareholder theory (e.g. Friedman, 1970). Both papers stated that the purpose of the firm is to increase profit and, thus, stakeholder management should by necessity be instrumental. Kaler (2009) also took an economic approach to suggest that shareholders and employees are the only important stakeholders of the firm because they serve a direct interest to the successful running of the firm.

Nonetheless, Kaler's (2009) approach seems to be rather myopic as the changing role and structure of firms and the business environment make it nearly impossible to ignore other stakeholder groups. Accounting for a wider range of stakeholders, Noland and Phillips (2010) discussed what the appropriate level of interaction with each group is. The authors discussed moral and strategic motivations behind stakeholder engagement and highlighted the necessity of going beyond the bare minimum expectation of satisfying stakeholder demands and, instead, invest time and resources to build long-term relationships.

Advancing the knowledge on the overlap between moral and strategic aims, Minoja (2012) attempted to integrate strategic choices into stakeholder management decisions. As a result, the author proposed a framework that brings together an ambidextrous stakeholder management, stakeholder cooperation, an ethical commitment to stakeholders and the strategy of the firm. Following this line of research, Verbeke and Tung (2013) suggested adding a temporal dimension to stakeholder management to assess the implications of firm-level competitive advantage due to stakeholder agendas evolving over time. Ultimately, this strand of research recognizes firm-stakeholder relations as a valuable resource that works towards achieving long-term competitive advantage.

Indeed, stakeholder agendas are not homogeneous. Bridoux and Stoelhorst (2014) challenged the positive link between fairness toward stakeholders and firm performance that IST defends. By using low-cost airlines as an example of fairness versus arms-length stakeholder management, the authors found out that both approaches may have their merits depending on whether the stakeholders care about fairness or not.

This once again puts into question how to best improve performance via stakeholder management, with more recent papers by Moriarty (2014) and Pierce and Aguinis (2015) trying to clarify the issue. The first one argued that stakeholders should be given control over the firm in the form of board membership. Meanwhile, the second focused on the concept of 'detrimental citizenship behavior' to investigate employee behaviors that, despite having the intended aim of improving performance, end up impacting the firm and its stakeholders negatively.

The discussion provided in this subsection about theory debates denotes that the literature is still fragmented and populated with numerous questions: what approach to stakeholder management should managers take? Are all stakeholders equally important to the firm? How could stakeholders be best embedded into the decision-making process? Future works could attempt to advance the literature by shedding more light on these questions.

2.3.5 Corporate social irresponsibility

Earlier we acknowledged the rise of corporate scandals providing a renewed interest in stakeholder theory, yet it seems the response in this direction has been limited. Conflicting approaches to IST, and the fragmented nature of stakeholder theory overall, has potentially impacted the response in examining how socially irresponsible behavior can damage stakeholder relations. One area that can potentially be attributed to this lies with CSR research. Harrison *et al.* (2010) pointed out that although stakeholder theory is originally rooted in strategic management, it is overemphasized as a strategy to manage social interests rather than firm performance.

Entangled within the CSR literature, this theory has in some respects become part of a one-sided debate, that if the firm is involved in socially responsible activities it is by default engaging with stakeholders also. A significant amount of research bases its assumptions on the fact that firms involved in CSR activities do not behave irresponsibly (Jones, *et al.*, 2009). This can potentially distort the theoretical development of IST as it misses many factors that impact firm-stakeholder relations.

Drawing from this perspective, Orlitzky and colleagues (2011) posed a simple question: can firms do well by doing good? Presenting an interesting and highly significant development for IST. Responsible and irresponsible managerial choices will inevitably impact stakeholders. Yet this question has received more attention in social movement literature, so far taking a sociological perspective that favors social capital over an IST approach to stakeholder engagement (e.g. McDonnell and King, 2013). Determining how stakeholders respond to CSiR will depend on the perceived grievances and which group of stakeholders are impacted most.

How firms respond to and counteract potential disruptions, such as boycotts and protests, will differ substantially depending on their level of previous stakeholder engagement. Brammer and Millington (2008) and Qian, Gao, and Tsang (2015) investigated the influence of corporate philanthropy as a response to corporate risk and identified low, normal and high socially performing firms. Brammer and Millington (2008) highlighted that low socially performing firms that rarely investment in stakeholder activities are more vulnerable to sanctions in the event of irresponsible actions. Qian *et al.* (2015) complemented this evidence by suggesting that high performing socially responsible firms encounter increased stakeholder and investor loyalty, improving financial and non-financial performance, demonstrating an IST approach. High socially performing firms proactively engage with stakeholders, aligning corporate strategy and IST which affords the firm a form of social and moral capital. This approach enables firms to build relationships through mutual trust, respect and fairness, the very ethos of IST.

This is in line with the ‘insurance hypothesis’ studies that argue that investing in stakeholder engagement provides insurance against future negative events. Since social and moral capital have the potential to protect firms against retaliation (Godfrey, Merrill and Hansen, 2009; Luo, Kaul and Seo, 2018), incorporating an IST approach can guide firms in how to do so. Nonetheless, it shall be noted that the ‘insurance’ will diminish if the firm has a history of repeating negative events. Shiu and Yang (2017) echoed this in their study by addressing the effect of increased investment in stakeholder focused socially responsible activities where CSiR has occurred. This study revealed that long-term stakeholder engagement provides an insurance type effect when CSiR occurs. However, this will most likely be reduced if CSiR reoccurs because stakeholders will lose trust and question the sincerity of increased investment in future CSR.

Recently, research has begun to explore the insurance concept in more detail, particularly where corporate philanthropy is utilized. Luo and colleagues (2018) investigate the ‘give more, spill more’ philosophy, where firms increase philanthropic investment to potentially overshadow CSiR behavior. This raises questions concerning the motives behind firms CSR activities and their engagement with stakeholders. The ability of stakeholders to sanction firms has progressed significantly. Nonmarket stakeholders are mobilizing in greater numbers, becoming increasingly sophisticated in their ability to address firms’ behavior. Stakeholders will reward the firm, but only so far, as they must know why they are rewarding the firm and for what activities. There are however limitations to this since firms and stakeholders alike are limited in their attention (Barnett, 2014; Madsen and Rodgers, 2015). Further to this, Eesley, Decelles and Lenox (2016) discussed activists' ability to influence firm performance, finding that firms can reduce risks by taking an IST approach to stakeholder engagement and addressing the issues that these groups may have.

This once again raises questions concerning the financial implications of CSR and stakeholder engagement, evaluating how much is deemed appropriate before shareholders will intervene. Mishra and Modi (2013) attempted to add clarity to this ongoing debate by analyzing how involvement in CSiR can positively or negatively affect financial performance of firms, proxied by firm idiosyncratic risk in the price of stock returns. They took a shareholder perspective to argue that investors will punish firms they see as 'over-leveraged' financially, supporting the argument that firms will invest in their stakeholders only if they are financially profitable. Groening and Kanuri (2013) also analyzed investor reactions to positive and negative events, focusing on how firm's shareholders perceive investments in stakeholder engagement in light of CSiR events. Results indicated that shareholders approve investing in stakeholder initiatives up to a point where they perceive that it is an unnecessary expenditure that reduces their profits. Adding to this, Price and Sun (2017) investigated how CSiR affects idiosyncratic risk by taking an instrumental perspective. Invoking a high-low matrix, the authors showed that high investments in CSR and building stakeholder relations reduces stock market risk. The paper suggests that positive and negative CSR will impact a firm's idiosyncratic risk, being stakeholders less inclined to punish negative CSR when the firm develops good stakeholder relations.

The discussion in this subsection highlights some limitations in the stakeholder and CSR literature. Introducing CSiR and its impact on stakeholder relationships and firm performance adds a new dimension to the business and society literature. Moving beyond the one-sided debates of 'doing good' and 'avoiding 'bad' can only add value as it identifies previously overlooked factors of firm behavior that shape performance. The stakeholder-performance debate has produced mixed results so far. This provides new and exciting avenues for future research, which could account for the ability of stakeholders to reward or sanction firm behavior.

2.4 Discussion

Our review seeks to understand how instrumental stakeholder theory has evolved over the last three decades, the application of this theory and what it means for the stakeholder-performance debate. A general agreement in the literature states that in order to accomplish organizational goals, firms must engage with their stakeholder groups (Bridoux and Stoelhurst, 2014; Hillman and Keim, 2001; Mitchell *et al.*, 2017; Orts and Strudler, 2009). Nevertheless, we note from this review difficulty in previous research surrounding confusion on what and who constitutes a stakeholder, motivations behind forming stakeholder relationships, and the suitability of either an instrumental or normative approach.

We acknowledge the contribution from Jones (1995) in promoting IST as the dominant perspective for firm-stakeholder relations. Nonetheless, limitations in this early contribution paved the way for an almost disjointed approach in the development of this theory, as this paper only acknowledged primary stakeholder groups. We argue that in focusing solely on primary stakeholders, this perspective limited the reach of this contribution and the development of IST as a standalone theory. We note the paper misses a nonmarket element, essentially ignoring secondary stakeholder groups, narrowing the impact and focus of research in the years following this publication. Furthermore, Jones (1995) detailed how firms can sanction stakeholders due to the 'contract' nature of the relationship, yet missed a crucial point, that stakeholders can in turn sanction the firm. This is an important distinction where this thesis differs from the extant research of IST.

The characteristics of primary and secondary stakeholders is addressed in the first theme, *identification and saliency.* The importance of taking a broad approach to stakeholder management is highlighted briefly here in the context of IST, though this is limited and done in a superficial capacity. Previous research seems focused on who, what and how stakeholders interact with firms. However, this takes a purely descriptive approach, merely detailing the actions of firm-stakeholder performance, without detailing *why* firms prioritize stakeholders and the implications of ignoring others.

Tashman and Raelin (2013) proposed an interesting perspective on this, stating that firms are limited in their capacity to acknowledge all stakeholder needs and conflicting interests. Indeed, this is an issue across much of the stakeholder literature (Barnett, 2014). This line of reasoning was followed up in more recent works by Bridoux and Vishwanathan (2020) and Fu *et al.* (2019), which discussed how firms tend to concentrate on the most powerful stakeholder groups while ignoring how stakeholder needs change over time. Although these contributions advance the instrumental perspective, they still have to be empirically tested. We must also acknowledge that the balance of power is shifting between stakeholders. Groups that were previously acknowledged solely on the periphery of firm operations are now impacting everyday actions. This is particularly relevant for firms that operate across national borders, bringing in issues concerning different institutional, cultural, and economic factors. Nonetheless, this stream of research is focused on literature investigating social movements and boycotts and is largely neglected in the IST literature (e.g. King and McDonnell, 2015; McDonnell and Werner, 2016).

As research progressed, identifying the characteristics of stakeholders evolved, and the shareholder-stakeholder debate became a prominent argument in stakeholder theory. Noted in *firm performance* and *corporate social responsibility* themes, we also acknowledge the limitations of defining stakeholder engagement in this context. Like the CSR/CFP slack resources argument, stakeholder literature overall remains unclear regarding what motivates firms to invest in stakeholder activities, specifically the instrumental perspective. Do firms engage with stakeholders purely to improve both financial and non-financial performance? Or do firms engage more with stakeholders as a reward for increased financial performance?

We propose that firms have two options in this respect. They could view IST strategically as either stakeholder maximization or a shareholder expense reflecting on how stakeholder theory has in some respects become almost transactional in pursuing the firm-stakeholder performance debate, as shown by Garcia-Castro and Francoeur in 2016. Highlighting the costs of stakeholder engagement is important, yet it must not be a trade-off between engagement and non-engagement, as in some respects the cost of not implementing a strategic instrumental approach to stakeholder relations could potentially cost more in the future.

To further develop the IST approach, the focus is turning towards examining the firm-stakeholder relationship, rather than just detailing actions taken by either group (Bridoux and Stoelhurst, 2014, 2016; Jones *et al.*, 2018; Noland and Phillips, 2010). In line with these most recent contributions to IST, and advocating a relational approach, we agree there is a disconnect in the literature regarding how and why firms engage with stakeholders. Research in IST has shifted from just merely detailing the actions of firms as a barometer of a successful stakeholder strategy. Instead, keeping in line with the relational model of IST and expanding on contributions by Fu *et al.* (2019), these works propose that a strategic IST approach should involve an ongoing assessment of the scope (number of stakeholders involved) and intensity (amount of resources needed) concerning the firm-stakeholder relationship. Investigating the nature and context of these relationships beyond a transactional approach would be more beneficial in maintaining stakeholder relations.

The most recent contribution by Jones *et al.* (2018) highlights certain shortcomings of IST using a resource-based theory. The authors pose simple questions that remain largely unanswered: is the instrumental approach a valuable resource?; what are the costs of stakeholder engagement?; and what are the moderating influences on IST-firm performance? This review does not seek to provide these answers yet; however, we argue that taking a strategic instrumental stakeholder approach provides more benefits then costs. Jones and colleagues link an IST approach to a firm's ability to achieve a sustained competitive advantage. However, this is challenged by Weitzner and Deutsch (2019), who state that further work on IST is futile, specifically from a resource-based perspective. These competing viewpoints highlight once again the continued conceptual confusion, generalizations and interpretations of an instrumental approach and stakeholder theory overall.

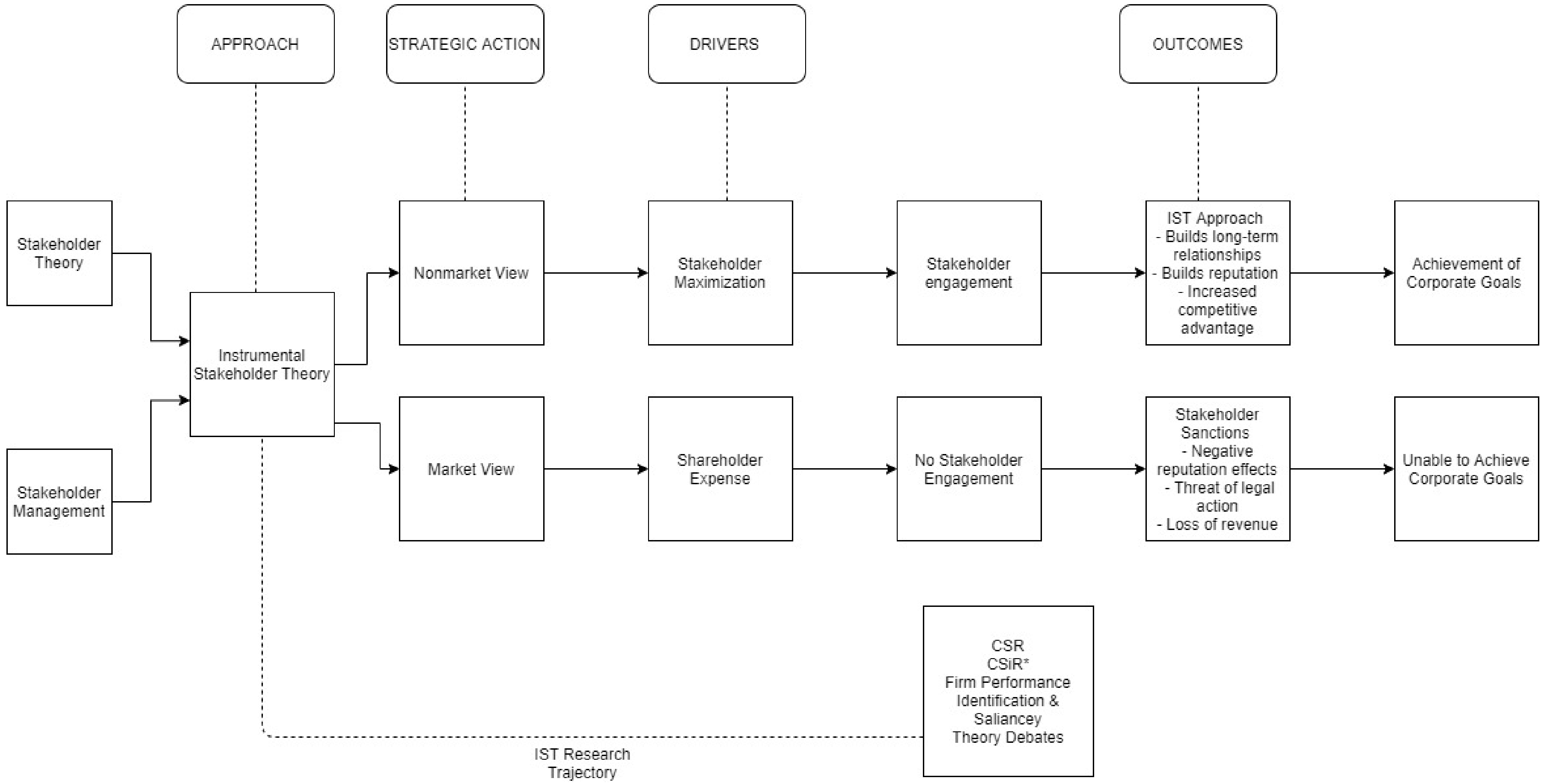
Nonetheless, we hope to offer a further perspective of IST more in line with a nonmarket approach. This we hope realigns IST back to its origins of a strategic management perspective, moving away from an overused normative approach. We believe this is more compatible with the challenging and complex global business environment where firms currently operate. Taking an IST approach to stakeholder engagement has moved beyond a purely business ethics policy. While firms want to engage in a more ethically sound practice, the reality is somewhat different, as firms will implement ethical strategies with a profit-based aims and objectives. There is little doubt that managing stakeholder relations is an integral aspect of firm success, yet we must acknowledge the limitations of firms' willingness to do this.

After reviewing the extant research of IST, we believe that adopting a strategic instrumental approach is context specific and subject to change. Different factors such as industry, firm size, product, cultural and country contexts will produce a significant amount of complex and competing demands between stakeholders and firms. Stakeholder engagement will differ across firms and their subsidiaries and will need to be adapted accordingly. We base this argument on works by Barnett (2014) and Bridoux and Stoelhurst (2014), whose discussions on the limitations of stakeholder attention and stakeholder gratification show how these factors impact on firm-stakeholder relations. We use this primarily in the context of CSiR, the fifth theme identified in our review. We argue that under certain conditions, stakeholders will retaliate against the firm but only up to a point, given that numerous factors may impede stakeholder sanctions. For example, if stakeholders identify with the perceived victims, retaliation may occur. Furthermore, if stakeholders have little to no knowledge of CSiR actions, it is unlikely that they will retaliate, and firms will face no consequences. Whiteman and Cooper (2016) bring attention to this issue in an extensive longitudinal study, spanning twenty years, focused on Malaysian forestry operations in Guyana. This study reveals harrowing details of human rights abuses and massive environmental degradation, yet these instances receive little, if any attention. Moreover, the firms in this study are identified as members of international forestry certification organizations, despite accusations of CSiR (Forestry Stewardship Council). Additionally, if a stakeholder finds a product or service useful, despite previous unethical behaviors, they will ignore certain firm behavior, as evidenced by the budget airlines example discussed by Bridoux and Stoelhurst (2014). In this paper, the authors compare the business model adapted by Southwest Airlines and Ryanair, both successful but with differing stakeholder management approaches.

The aim of this thesis is to discover if irresponsible behavior by firms will impact negatively on firm performance, and to what extent stakeholder engagement can buffer or intensify potential consequences. We seek to investigate this further in the following chapters using empirical data.

Figure 2.5 demonstrates how we have assessed the IST perspective. Our framework provides a visual description of the research process undertaken in this chapter. The framework intends to portray the suitability of applying IST through the lens of CSiR. Strategic management aims to improve overall organizational performance (Makadok, Burton and Barney, 2018), but firms do not operate in isolation. This interaction requires cooperation and collaboration with all stakeholder groups. Our framework notes that firms can take either a market or nonmarket approach to their core strategic decision-making processes. There are two motivations that drive stakeholder engagement. Our review of the literature reveals that firms can view IST as either a shareholder expense (investing relatively little time and resources into stakeholder engagement) or as an investment opportunity (working to maximize these relationships to create long-term value). The ultimate goal of IST is to provide a more holistic and inclusive approach for firms to achieve their corporate objectives. Taking a nonmarket approach would help build long-term stakeholder relationships, boost reputation, and achieve a competitive advantage. However, taking a purely shareholder-centric approach to value creation and overlooking other stakeholders, the firm is vulnerable to stakeholder sanction, damaged reputation, and potential financial loss.

Figure 2.5. Conceptual framework mapping the IST trajectory.



2.5 Future Research Agenda

Our review captures the trajectory of IST since its introduction as a central component of stakeholder theory. Stakeholder theory can be described as multi-disciplinary in nature at best and fragmented and contested at worst (Miles, 2012, 2017; Wasieleski and Weber, 2017). The articles reviewed in our analysis provide an overview of different caveats in the IST literature that open interesting avenues of research in this area. The first one relates to the geographic scope of stakeholder management. Only one of the papers included in our sample had been published in an IB journal, despite many firms being multinational nowadays. The interconnections between internationalization and IST offer numerous research questions that are yet to be answered. Future research could address issues like IST and institutional distance, the effect of (de)globalization on IST, and the differences in the salience of stakeholders across borders, among others.

The second avenue for additional research has to do with secondary stakeholders; that is, nonmarket or society stakeholders. Secondary stakeholder groups have a growing importance in the current business scene, from influencing major projects in the extractive industry (Henisz *et al.*, 2014; Verbeke *et al.*, 2017) to shaping the outcomes of the low-cost airline industry (Bridoux and Stoelhorst, 2014). In some cases, the balance of power has shifted to these secondary groups, which can quite effectively impact performance and the achievement of strategic goals. Which nonmarket stakeholders (e.g. activists, governments, NGOs) have the most influence on firm outcomes? In which ways can they affect performance? What are the boundary conditions under which these stakeholders hold the upper hand? We suggest that these questions should be further explored, both theoretically and empirically.

Further to this, we suggest that CSiR will provide a fruitful scope for future research in IST. Our analysis points out that only 8% of the articles reviewed this topic. We highlighted in the review how CSiR impacts shareholder value (Groening and Kanuri, 2013) and idiosyncratic risk (Mishra and Modi, 2013; Price and Sun, 2017). However, these studies are very much shareholder centric and largely avoid nonmarket stakeholders. We suggest that future research could investigate nonmarket stakeholders' ability to impact financial and non-financial performance in the face of CSiR events. Also noted in this review process is an instrumental stakeholder approach to corporate political activity. Firms are increasingly engaged in activities that influence legislative and regulatory processes. In addition to this, firms are now taking on roles that were previously the responsibility of governments. However, the literature has largely neglected how socio-political strategies of firms can impede the development of stakeholder engagement. Firm political activity can be viewed rather cynically, as stakeholders perceive that it only benefits firms. Applying an instrumental approach to empirically investigate this concept can provide a rich avenue of research.

In this regard, our final suggestion for studies on IST is methodological. As previously mentioned, most of the papers in our sample are theoretical/conceptual (61%). Only 11% focused on qualitative methods, with the rest of them using either secondary data (27%) or surveys (1%) to perform their quantitative analyses. This distribution highlights that the IST literature is in need of more empirical work, particularly coming from primary data.

Instrumental stakeholder theory (IST) is the strand of the stakeholder theory that links stakeholder management practices to performance. We have chosen to review this strand at a time that is becoming increasingly important to engage with stakeholder groups. Stakeholder profiles are changing, our extensive review provides evidence that nonmarket stakeholders are increasingly powerful and willing to hold firms accountable. Yet how this translates into pushing firms to change their practices long-term remains unclear. It is our view that stakeholder theory overall is more suited now to a strategic (instrumental) perspective rather than ethical (normative) foundation. Ethical business decisions will almost certainly be taken with value creation as the main goal. Finding the right balance between a profit-based strategy that benefits both market and nonmarket stakeholders is a challenge all firms must embrace.

Are all stakeholders equally important for firms to achieve their objectives? If not, which ones should they serve to increase their likelihood of succeeding in the markets where they operate? A deeper understanding of IST is critical and timely, as several questions have yet to be answered. This thesis aims to extends the instrumental perspective where CSiR has occurred, in an effort to advance our knowledge on how stakeholder management can favor the achievement of a competitive advantage. Drawing on IST, in the following two chapters we provide an empirical analysis on the research question: *Does CSiR adversely affect performance and strategic growth or can firms act with impunity?*

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Appendix 1 – List of Articles Included in the Literature Review

CORPORATE SOCIAL RESPONSIBILITY				
Author(s)	***Year***	***Journal***	***Title***	***Methodology***
Fu, L., Boehe, D., Orlitzky, M., and Swanson, D.	2019	LRP	Managing stakeholder pressures: Toward a typology of corporate social performance profiles.	Conceptual
Van Lent, W., and Smith, A.D.	2019	JBE	Using versus excusing: The Hudson's Bay Company's long-term engagement with its (problematic) past.	Qualitative
Schembera, S.	2018	B&S	Implementing corporate social responsibility: Empirical insights on the impact of the UN Global Compact on its business participants.	Quantitative (Secondary Data)
Scherer, A.G.	2017	IJMR	Theory assessment and agency setting in political CSR: A critical theory perspective.	Conceptual
Wang, Q., Dou, J., and Jia, S.	2016	B&S	A meta-analytic review of corporate social responsibility and corporate financial performance: The moderating effect of contextual factors.	Quantitative (Secondary Data)
Moura-Leite, R.C., Padgett, R.C., and Galan, J.I.	2014	B&S	Stakeholder management and nonparticipation in controversial business	Quantitative (Secondary Data)
Rotter, J.P., Airike, P.E., and Mark-Herbert, C.	2014	JBE	Exploring political corporate responsibility in global supply chains	Qualitative
Baden, D., and Harwood, I.A.	2013	JBE	Terminology matters: A critical exploration of corporate social responsibility terms.	Conceptual

Deutsch, Y., and Valente, M.	2013	JBE	Compensating outside directors with stock: The impact on non-primary stakeholders.	Quantitative (Secondary Data)
Lee, L., Oh, W.Y., and Kim, N.	2013	JBE	Social media for socially responsible firms: Analysis of Fortune 500's Twitter profiles and their CSR/CSIR ratings.	Quantitative (Secondary Data)
Fassin, Y.	2012	JBE	Stakeholder management, reciprocity and stakeholder responsibility	Conceptual
Maekinen, J., and Kourula, A.	2012	BEQ	Pluralism in political corporate social responsibility	Conceptual
Whelan, G.	2012	BEQ	The political perspective of corporate social responsibility: A critical research agenda.	Conceptual
Crilly, D.	2011	JIBS	Predicting stakeholder orientation in the multinational enterprise: A mid-range theory.	Qualitative
Osuji, O.	2011	JBE	Fluidity of regulation-CSR nexus: The multinational corporate corruption example.	Conceptual
Wang, H., and Qian, C.	2011	AMJ	Corporate philanthropy and corporate financial performance: The roles of stakeholder response and political access.	Quantitative (Secondary Data)
O'Higgins, E.R.	2010	JBE	Corporations, civil society, and stakeholders: An organizational conceptualization.	Conceptual
Gond, J.P., Palazzo, G., and Basu, K.	2009	BEQ	Reconsidering instrumental corporate social responsibility through the mafia metaphor	Conceptual
Hine, J.A.H.S., and Preuss, L.	2009	JBE	"Society is out there, organisation is in here": On the perceptions of corporate social responsibility held by different managerial groups.	Qualitative

Jamali, D.	2009	JBE	A stakeholder approach to corporate social responsibility: A fresh perspective into theory and practice.	Qualitative
Orts, E.W., and Strudler, A.	2009	JBE	Putting a stake in stakeholder theory	Conceptual
Signori, S., and Rusconi, G.	2009	JBE	Ethical thinking in traditional Italian *Economia Aziendale* and the stakeholder management theory: The search for possible interactions.	Conceptual
Barnett, M.L.	2007	AMR	Stakeholder influence capacity and the variability of financial returns to corporate social responsibility	Conceptual
Aguilera, R.V., Rupp, D.E., Williams, C.A., and Ganapathi, J.	2007	AMR	Putting the S back in corporate social responsibility: A multilevel theory of social change in organizations.	Conceptual
Doh, J.P., and Guay, T.R.	2006	JoMS	Corporate social responsibility, public policy, and NGO activism in Europe and the United States: an institutional-stakeholder perspective.	Conceptual
Windsor, D.	2006	JoMS	Corporate social responsibility: Three key approaches.	Conceptual
Steurer, R., Langer, M.E., Konrad, A., and Martinuzzi, A.	2005	JBE	Corporations, stakeholders and sustainable development I: A theoretical exploration of business-society relations.	Conceptual
Cragg, W., and Greenbaum, A.	2002	JBE	Reasoning about responsibilities: Mining company managers on what stakeholders are owed.	Qualitative
Harrison, J.S., and Freeman, R.E.	1999	AMJ	Stakeholders, social responsibility, and performance: Empirical evidence and theoretical perspectives.	Conceptual
Bendheim, C.L., Waddock, S.A., and Graves, S.B.	1998	B&S	Determining best practice in corporate-stakeholder relations using data envelopment analysis: An industry level study.	Quantitative (Secondary Data)

CORPORATE SOCIAL IRRESPONSIBILITY				
Author(s)	***Year***	***Journal***	***Title***	***Methodology***
Price, J.M., and Sun, W.	2017	JBR	Doing good and doing bad: The impact of corporate social responsibility and irresponsibility on firm performance.	Quantitative (Secondary Data)
Shui, Y.M., and Yang, S.L.	2017	SMJ	Does engagement in corporate social responsibility provide strategic insurance-like effects?	Quantitative (Secondary Data)
Eesley, C., Decelles, K.A., and Lenox, M.	2016	SMJ	Through the mud or in the boardroom: Examining activist types and their strategies in targeting firms for social change.	Quantitative (Secondary Data)
Madsen, P.M., and Rogers, Z.J.	2015	SMJ	Looking good by doing good: The antecedents and consequences of stakeholder attention to corporate disaster relief.	Quantitative (Secondary Data)
Qian, C., Gao, X., and Tsang, A.	2015	JBE	Corporate philanthropy, ownership type, and financial transparency	Quantitative (Secondary Data)
Groening, C., and Kanuri, V.K.	2013	JBR	Investor reaction to positive and negative corporate social events	Quantitative (Secondary Data)
Mishra, S., and Modi, S.B.	2013	JBE	Positive and negative corporate social responsibility, financial leverage, and idiosyncratic risk	Quantitative (Secondary Data)
Orlitzky, M., Siegel, D.S., and Waldman, D.A.	2011	B&S	Strategic corporate social responsibility and environmental sustainability	Conceptual
Surroca, J., Tribó, J.A., and Waddock, S.	2010	SMJ	Corporate responsibility and financial performance: The role of intangible resources.	Quantitative (Secondary Data)
Brammer, S., and Millington, A.	2008	SMJ	Does it pay to be different? An analysis of the relationship between corporate social and financial performance.	Quantitative (Secondary Data)

FIRM PERFORMANCE				
Author(s)	**Year**	**Journal**	**Title**	**Methodology**
Gambeta, E., Koka, B.R., and Hoskisson, R.E.	2019	SMJ	Being too good for your own good: A stakeholder perspective on the differential effect of firm- employee relationships on innovation search.	Quantitative (Secondary Data)
Paulraj, A.,Chen, I.J, and Blome, C.	2017	JBE	Motives and performance outcomes of sustainable supply chain management practices: A multi-theoretical perspective.	Quantitative (Survey)
Verbeke, A., Osiyevskyy, O., and Backman, C.A.	2017	LRP	Strategic responses to imposed innovation projects: The case of carbon capture and storage in the Alberta oil sands.	Qualitative
Garcia-Castro, R., and Francoeur, C.	2016	SMJ	When more is not better: Complementarities, costs and contingencies in stakeholder management.	Quantitative (Secondary Data)
Bosse, D.A., and Coughlan, R.	2016	JOMS	Stakeholder relationship bonds	Conceptual
Su, W., and Tsang, E.W.K.	2015	AMJ	Product diversification and financial performance: The moderating role of secondary stakeholders.	Quantitative (Secondary Data)
Henisz, W.J., Dorobantu, S., and Nartey, L.J.	2014	SMJ	Spinning gold: The financial returns to stakeholder engagement.	Quantitative (Secondary Data)
Chiu, S.C., and Sharfman, M.	2011	JOM	Legitimacy, visibility, and the antecedents of corporate social performance: an investigation of the instrumental perspective.	Quantitative (Secondary Data)
Garcia-Castro, R., Ariño, M.A., and Canela, M.A.	2011	B&S	Over the long-run? Short-run impact and long-run consequences of stakeholder management.	Quantitative (Secondary Data)
Harrison, J.S., Bosse, D.A., and Phillips, R.A.	2010	SMJ	Managing for stakeholders, stakeholder utility functions, and competitive advantage	Conceptual

Cennamo, C., Berrone, P., and Gomez-Mejia, L.R.	2009	JBE	Does stakeholder management have a dark side?	Conceptual
Kobeissi, N., and Damanpour, F.	2009	B&S	Corporate responsiveness to community stakeholders: Effects of contextual and organizational characteristics.	Quantitative (Secondary Data)
Bouquet, C., and Deutsch, Y.	2008	JBE	The impact of corporate social performance on a firm's multinationality	Quantitative (Secondary Data)
Berrone, P., Surroca, J., and Tribó, J.A.	2007	JBE	Corporate ethical identity as a determinant of firm performance: A test of the mediating role of stakeholder satisfaction.	Quantitative (Secondary Data)
Harting, T.R., Harmeling, S.S., and Venkataraman, S.	2006	BEQ	Innovative stakeholder relations: When "ethics pays" (and when it doesn't).	Conceptual
Hosmer, L.T., and Kiewitz, C.	2005	BEQ	Organizational justice: A behavioral science concept with critical implications for business ethics and stakeholder theory.	Conceptual
Heugens, P.P.M.A.R., Van Den Bosch, F.A.J., and Van Riel, C.B.M.	2002	B&S	Stakeholder integration: Building mutually enforcing relationships.	Qualitative
Berman, S.L.,Wicks, A.C., Kotha, S., and Jones, T.M.	1999	AMJ	Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance.	Quantitative (Secondary Data)
Ogden, S., and Watson, R.	1999	AMJ	Corporate performance and stakeholder management: Balancing shareholder and customer interests in the UK privatized water industry.	Quantitative (Secondary Data)

IDENTITY AND SALIENCE				
Author(s)	**Year**	**Journal**	**Title**	**Methodology**
Tashman, P., and Raelin, J.	2013	BEQ	Who and what really matters to the firm: Moving stakeholder salience beyond managerial perceptions.	Conceptual
Jones, T.M., Felps, W., and Bigley, G.A.	2007	AMR	Ethical theory and stakeholder-related decisions: The role of stakeholder culture.	Conceptual
Su, C., Mitchell, R.K., and Sirgy, M.J.	2007	JBE	Enabling guanxi management in china: A hierarchical stakeholder model of effective guanxi.	Conceptual
Eesley, C., and Lenox, M.J.	2006	SMJ	Firm responses to secondary stakeholder action	Quantitative (Secondary Data)
Reynolds, S.J., Schultz, F.C., and Hekman, D.R.	2006	JBE	Stakeholder theory and managerial decision-making: Constraints and implications of balancing stakeholder interests.	Qualitative
Driscoll, C., and Starik, M.	2004	JBE	The primordial stakeholder: Advancing the conceptual consideration of stakeholder status for the natural environment.	Conceptual
Kaler, J.	2003	JBE	Differentiating stakeholder theories	Conceptual
Ryan, L.V., and Schneider, M.	2003	B&S	Institutional investor power and heterogeneity	Conceptual
Van Buren, H.J.	2001	BEQ	If fairness is the problem, is consent the solution? Integrating ISCT and stakeholder theory.	Conceptual
Phillips, R.A.	1997	BEQ	Stakeholder theory and a principle of fairness	Conceptual

THEORY DEBATES				
Author(s)	**Year**	**Journal**	**Title**	**Methodology**
Bridoux, F., and Vishwanathan, P.	2019	B&S	When do powerful stakeholders give managers the latitude to balance all stakeholders' interests?	Conceptual
Bundy, J., Vogel, R.M., and Zachary, M.	2018	SMJ	Organization-stakeholder fit: A dynamic theory of cooperation, compromise, and conflict between an organization and its stakeholders	Conceptual
Freeman, R.E., Phillips, R., and Sisodia, R.	2020	B&S	Tensions in stakeholder theory	Conceptual
Hahn, T., Figge, F., Pinske, J., and Preuss, L.	2018	JBE	A paradox perspective on corporate sustainability: Descriptive, instrumental and normative aspects.	Conceptual
Jones, T.M., Harrison, J.S., and Felps, W.	2018	AMR	How applying instrumental stakeholder theory can provide sustainable competitive advantage	Conceptual
Hayibor, S.	2017	JBE	Is fair treatment enough? Augmenting the fairness-based perspective on stakeholder behaviour.	Conceptual
Zientara, P.	2017	JBE	Socioemotional wealth and corporate social responsibility: A critical analysis.	Conceptual
Demuijnck, G., and Fasterling, B.	2016	JBE	The social license to operate	Conceptual
Pierce, J.R., and Aguinis, H.	2015	MOR	Detrimental citizenship behaviour: A multilevel framework of antecedents and consequences.	Conceptual
Bridoux, F., and Stoelhorst, J.W.	2014	SMJ	Microfoundations for stakeholder theory: Managing stakeholders with heterogeneous motives.	Conceptual

Miska, C., Hilbe, C., and Mayer, S.	2014	JBE	Reconciling different views on responsible leadership: A rationality-based approach.	Conceptual
Moriarty, J.	2014	B&S	The connection between stakeholder theory and stakeholder democracy: An excavation and defense.	Conceptual
Verbeke, A., and Tung, V.	2013	JBE	The future of stakeholder management theory: A temporal perspective.	Conceptual
Minoja, M.	2012	JBE	Stakeholder management theory, firm strategy and ambidexterity	Conceptual
Noland, J., and Phillips, R.	2010	IJMR	Stakeholder engagement, discourse ethics and strategic management	Conceptual
Kaler, J.	2009	JBE	An optimally viable version of stakeholder theory	Conceptual
Agle, B.R., Donaldson, T., Freeman, R.E., Jensen, M.C., Mitchell, R.K., and Wood, D.J.	2008	BEQ	Dialogue: Toward superior stakeholder theory	Conceptual
Gilbert, D.U., and Rasche, A.	2008	JBE	Opportunities and problems of standardized ethics initiatives—A stakeholder theory perspective.	Conceptual
Wagner-Tsukamoto, S.	2007	JBE	Moral agency, profits and the firm: economic revisions to the theorem	Conceptual
Scherer, A.G., Palazzo, G., and Baumann, D.	2006	BEQ	Global rules and private actors: Towards a new role of the transnational corporation in global governance.	Conceptual
O'Connell, L.L., Carroll, C.U., Betz, M., Shepard, J.M., and Hendry, J.R.	2005	BEQ	An organizational approach to corporate rationality: The role of stakeholder activism.	Conceptual

Wagner-Tsukamoto, S.	2005	JBE	An economic approach to business ethics: Moral agency of the firm and the enabling and constraining effects of economic institutions and interactions in a market economy.	Conceptual
Butterfield, K.D., Reed, R., and Lemak, D.J.	2004	B&S	An Inductive Model of Collaboration from the Stakeholders Perspective	Qualitative
Rowley, T.J., and Moldoveanu, M.	2003	AMR	When will stakeholder groups act? An interest- and identity-based model of stakeholder group mobilization.	Conceptual
Cragg, W.	2002	BEQ	Business ethics and stakeholder theory	Conceptual
Freeman, R.E., and Phillips, R.A.	2002	BEQ	Stakeholder theory: A libertarian defense.	Conceptual
Friedman, A.L., and Miles, S.	2002	JoMS	Developing stakeholder theory	Qualitative
Heugens, P.P.M.A.R., and van Oosterhout, H.J.	2002	JBE	The confines of stakeholder management: Evidence from the Dutch manufacturing sector.	Qualitative
Hendry, J.	2001	BEQ	Missing the target: Normative stakeholder theory and the corporate governance debate.	Conceptual
Jawahar, I.M, and McLaughlin, G.L.	2001	AMR	Towards a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach.	Conceptual
Stoney, C. & Winstanley, D.	2001	JOMS	Stakeholding: Confusion or utopia? Mapping the conceptual terrain.	Conceptual
Bishop, J.D.	2000	BEQ	A framework for discussing normative theories of business ethics	Conceptual
Freeman, R.E.	2000	BEQ	Business ethics at the millennium	Conceptual

Gibson, K.	2000	JBE	The moral basis of stakeholder theory	Conceptual
Wijnberg, N.M.	2000	JBE	Normative stakeholder theory and Aristotle: The link between ethics and politics.	Conceptual
Reed, D.	1999	BEQ	Stakeholder management theory: A critical theory perspective.	Conceptual
Shankman, N.A.	1999	JBE	Reframing the debate between agency and stakeholder theory of the firm	Conceptual
Donaldson, T., and Preston, L.E.	1995	AMR	The stakeholder theory of the corporation: Concepts, evidence and implications.	Conceptual
Jones, T.M.	1995	AMR	Instrumental stakeholder theory: A synthesis of ethics and economics.	Conceptual
Quinn, D.P., and Jones, T.M.	1995	AMR	An agent morality view of business policy	Conceptual

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CHAPTER 3 - AN INSTRUMENTAL STAKEHOLDER THEORY APPROACH TO THE PERFORMANCE EFFECTS OF CORPORATE SOCIAL IRRESPONSIBILITY

3.1 Introduction

Business and society are experiencing a fundamental change in the approach to performance, both in the market and nonmarket arenas. We now see an increased interest in the stakeholder approach to value creation, as firms work towards increasing financial performance and improved efficiency, but not at the expense of the wider community (Barnett, 2007; Bosse, Phillips and Harrison, 2009; Choi and Wang, 2009; Garcia-Castro and Aguilera, 2015). Yet despite this shift, in which firms increasingly seek to contribute to social, environmental and economic challenges, widespread public mistrust remains as to why firms would take a more stakeholder-centric stance, especially after the most recent financial crisis and the resultant corporate scandals. This public skepticism is further exacerbated by a growing intolerance to corporate social irresponsibility (CSiR) that not only adversely impacts on societal interests but also the long-term interests of firms (Lin-Hi and Blumberg, 2012; Nardella, Brammer and Surdu, 2020).

To counteract this stakeholder distrust, firms are taking a more strategic approach to social responsibility that strategically aligns their operations, products, and services with their CSR programs (Lawton, Doh and Rajwani, 2014). Additionally, governments and legislative bodies are committing to implementing regulations aimed at reducing carbon emissions, which is pushing firms to innovate new and existing products and services (European Carbon Foundation, 2019). Firms are working to align market and nonmarket activities by implementing green technologies, addressing stakeholder concerns and anticipating new legislative restrictions (Schreck, 2011). For example, those in the automotive industry pushing to switch to electric cars to reduce carbon emissions. Or those in high-tech looking to streamline product size and availability and make the accessories for smartphones ‘added extras’ as a means to help the environment. The European Parliament are now calling on technology firms to reduce electronic waste to tackle rising concerns over emissions standards and are pushing for the introduction of universal accessories (i.e. chargers and headphones).[1] Anticipating this new legislation, Apple Inc. is already innovating its products by removing certain features, ultimately forcing consumers to buy accessories after the initial purchase. Firms now work to overemphasize their commitment towards social responsibility but, in reality, these decisions are mainly profit-driven and a form of self-regulation before stricter standards of production are imposed (Baron, 2016).

The debate surrounding corporate social responsibility (CSR) mainly focuses on whether it is an unnecessary cost, or a strategic investment based on its impact on the financial performance of the firm (Kang, Germann and Grewal, 2016; McWilliams and Siegel, 2011; Porter and Kramer, 2011). As firms move towards a more stakeholder-centric approach, evidenced by the recent announcement from the Business Roundtable statement committing to a wider stakeholder focus[2], there is now increased interest in identifying a link between improved financial performance through strategic CSR programs (Barnett and Salomon, 2006, 2012; Flammer, 2015; Margolis and Walsh, 2003; Ortlitzky, Schmidt and Rynes, 2003). Nonetheless, despite this increased attention, there is still no empirical consensus on whether CSR positively influences financial performance (Flammer, 2015).

So far, we have only discussed firms' efforts to be more socially responsible. However, these efforts often collide with instances of irresponsible behavior that show the contradiction between doing good and doing well for shareholders (Alcadipani and de Oliveira Medeiros, 2019), whether this is through human rights abuse associated with the garment industry highlighted in the Rana Plaza collapse, the environmental damage caused by the BP Deepwater Horizon incident, or

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[1] https://news.sky.com/story/why-iphones-might-need-the-same-charging-cable-as-androids-in-future-11910409 (Last accessed August 3, 2020).

[2] https://opportunity.businessroundtable.org/ourcommitment/. (Last accessed August 3, 2020).

the corruption linked to the collapse of Enron. Although the performance outcomes of CSR has drawn the attention of numerous scholars in recent decades, research has been very much one-sided to date, focusing on firms' good deeds rather than whether or how they avoid doing harm (Lin-Hi and Müller, 2013). This in turn ignores the implications that firms are involved in irresponsible behaviors through intentional or accidental acts that could be financially detrimental to them.

Only recently have studies tried to disentangle the effect of *corporate social irresponsibility* (CSiR) on firm performance (Chen, Guo, Hsiao, and Chen, 2018; Flammer, 2013; Groening and Kanuri, 2013, 2018; Kang *et al.*, 2016; Kölbel, Busch and Jancso, 2017; Nardella, *et al.*, 2020; Price and Sun, 2017; Shiu and Yang, 2017; Walker, Zhang and Yu, 2016). Price and Sun (2017) focus on market value and firm idiosyncratic risk as their performance measures, other studies use investor reaction and stock price (Flammer, 2013; Groening and Kanuri, 2013). Whereas Nardella *et al.*, (2020) use reputation change as their dependent variable. Building upon this line of research and drawing on instrumental stakeholder theory (IST), this chapter seeks to unearth the effect of CSiR on financial and non-financial performance, proxied by the firm's value (Tobin's q) and *corporate social performance* (CSP) score, respectively. In addition, we suggest that this relationship is bound to be affected by the other strand of the firm's nonmarket strategy (i.e. CPA).

So far academic research into the mechanisms of CSiR has focused on the institutional environment (Keig, Brouthers and Marshall, 2015), attributions (Lange and Washburn, 2012) and CSiR as a resource (Strike, Gao and Bansal, 2006). Only recently has interest shifted to take account of the role that stakeholders play when CSiR occurs. This may be due to the rising importance of stakeholder engagement and how this has subtlety altered the balance of power between stakeholder groups and firms, as stakeholders become increasingly influential over policy outcomes (Baron, 2016; Chiu and Sharfman, 2011; King and McDonnell, 2015).

Though economic and social interest may seem incompatible at times, we see opportunity to better align these two concepts by undertaking a more instrumental approach to building stakeholder relations. Taking an instrumental approach to our research highlights the contractual benefits of proactively engaging with stakeholders to achieve the economic and social objectives of the firm jointly (Jones, 1995). This includes both primary and secondary stakeholder groups. Based on Hillman and Keim (2001), we consider shareholders, employees, suppliers, customers as primary stakeholders. Meanwhile, governments and legislators, the environment, local communities, media, and nongovernmental organizations would qualify as secondary or *nonmarket* stakeholders (Gardberg and Fombrun, 2006; Husted, Allen and Kock, 2015).

Nonmarket stakeholders can disrupt firm behavior through boycotts and protests (Markman, Waldron and Panagopoulos, 2016; Sweetin, Knowles, Summey and McQueen, 2013). The pursuit of stakeholder groups to hold firms accountable for their perceived actions is growing in strength, sophistication, and size. Specifically, powerful activist groups seek to shape policy and alter a firms' strategic operations, putting pressure not only on governments but also on businesses' and their value chains (Bach, 2015). For example, Greenpeace's 'Dirty Laundry' campaign, which identified and targeted clothing manufacturers in supply chains accused of environmental and human rights abuses. Powerful brands such as Adidas and Nike suffered from the negative exposure that followed, which ensured that these firms successfully 'detoxed' their supply chains.[3]

In this chapter, we account for nonmarket stakeholders, specifically political stakeholders, by examining the implications of firms engaging in financial and relational CPA. We focus on how firms use these tactics to buy political capital when CSiR occurs. To the extent of our knowledge, this is the first study that addresses this issue. We argue that lobbying expenditures and being

[3] https://www.greenpeace.org/international/publication/7168/dirty-laundry/ (Last accessed July 8, 2020).

headquartered close to the political capital of the country deepens the negative relationship between CSiR and performance. Former papers on the CSiR-performance link have primarily focused on assessing the impact of CSR investments as a form of reputational insurance when CSR and CSiR coexist (Brammer and Millington 2008; Godfrey, Merrill and Hansen, 2009; Luo, Kaul and Seo, 2018). Adding to this, we acknowledge the call of researchers to: 1) treat CSiR as a standalone concept that is separate from CSR (Lin-Hi and Müller, 2013; Kölbel *et al.*, 2017; Walker *et al.*, 2016) and 2) consider both strands of nonmarket strategy—i.e. CSR and CPA—when researching this topic (den Hond, Rebhein, de Bakker and Lankveld, 2014; Lawton *et al.,* 2014; Liedong, Ghobadian, Rajwani and O'Regan, 2015; Mellahi, Frynas, Sun and Siegel, 2016).

We have developed and tested a series of hypotheses on a panel-data sample of firms listed in Standard & Poor's (S&P) 500 over an 11-year period (2007-2017) using random-effects regressions. To define our CSiR variable, we created our own unique database of CSiR events in which the S&P 500 firms considered had been involved by collecting and coding media publications included in the LexisNexis directory. This process uncovered 420 acts of CSiR that we classified into eight different categories (i.e. fraud; bribery and corruption; competition; environment; discrimination; product safety; human rights; other).

Our results suggest that there is no significant relationship between CSiR and firms' financial performance. Meanwhile, we find evidence that CSiR negatively impacts non-financial performance, and that financial CPA (i.e. lobbying expenditures) further deepen this relationship. In addition, while we do not obtain significant results for a firm's political connections using the geographic measurement of '*distance to DC*', we do find a significant negative moderating relationship when we define relational CPA in terms of the hiring practices of firms of ex government employees and politicians (i.e. commonly referred to as '*revolvers'*).

In this chapter we make three central contributions to the nonmarket and instrumental stakeholder literatures. First, we contribute to theory by extending IST research into the nonmarket domain. We analyze how stakeholder relations are impacted when CSiR is uncovered. We note that while shareholders neither punish nor reward CSiR, stakeholders as a whole penalize it in the form of a lower CSP. We also contribute overall to nonmarket strategy (NMS) literature by analyzing CSR and CSiR as two separate constructs, which allows us to gain a broader understanding of the different mechanisms that affect firm performance. Further to this, we address nonmarket scholars calls to examine the alignment of the two strands that conform a firm's NMS; that is, CSR and CPA. We make our final contribution in this chapter specifically to the CPA literature by taking an instrumental stakeholder approach to financial and relational CPA to examine how stakeholders react to this as a performance-enhancing tactic.

We structure the remainder of this chapter as follows. First, we conduct a literature review of prior CSiR research. Next, we introduce our theoretical framework and develop our hypotheses before discussing our methodological approach, which includes a description of the research setting, data collection process, variables introduced in the models, and econometric techniques used. We then present our key results and discuss them together with their practical implications, limitations, and future research directions.

3.2 Corporate Social Irresponsibility: A Review of the Literature

The concept of *corporate social irresponsibility* (CSiR) was introduced as a topic of discussion by Armstrong (1977), who likened CSiR to immoral decision making by executives with the aim of increasing shareholder value. Although this concept received some attention in the intervening years, it is only in the last decade that a significant attempt to understand the outcomes of CSiR as a standalone concept has occurred (Riera and Iborra, 2017). Indeed, CSiR has been identified as one of the major challenges for practitioners, scholars and society in the 21st century due to increased incidents of corporate misconduct that negatively impact stakeholders and the natural environment (Christensen, Mackey and Whetten, 2014; Pearce and Manz, 2011).

The concept of socially irresponsible behavior is labelled as an 'umbrella term', thus accounting for the fact that different researchers have used a variety of terms to define it and that it crosses over different research areas. We have captured the most prominent labels in Table 3.1.:

Table 3.1. Most prominent labels of socially irresponsible behaviors used in the literature.

AUTHOR	YEAR	TERM	DEFINITION
Coombs	2006	Crisis Management	"(…) represents the amount of financial, physical, environmental, or emotional harm a crisis can inflict (…) severity increases perceptions of crisis responsibility"
Jones, Bowd, and Tench	2009	CSI	"CSI is about being reactive as opposed to proactive in addressing corporate issues and the ways and means by which they relate to wider society. At its extreme CSI may entail breaking the law (…) operating in a CSI manner, can have disastrous social, economic and business consequences"
Greve, Palmer, and Pozner	2010	Misconduct	"(…) organizational misconduct as behavior in or by an organization that a social-control agent judges to transgress a line separating right from wrong; where such a line can separate legal, ethical, and socially responsible behavior from their antitheses"

Mishina, Dykes, Block, and Pollock	2010	Corporate illegality	"(…) an illegal act primarily meant to benefit a firm by potentially increasing revenues or decreasing costs"
Groening and Kanuri	2013	Positive/Negative Event	"(…) refers to an event that either adds or deletes something that is stakeholder-positive or stakeholder-negative"
Barnett	2014	CSiR	"any publicly disclosed firm action that, under some set of conditions, a stakeholder would deem illegal, unethical, or socially irresponsible".
Price and Sun	2017	CSiR	"(…) understood to describe firm actions which reasonable stakeholders consider to be irresponsible behavior, is concerned with whether firms engage in harmful activities that benefit a few but cause substantive net harm when considering all stakeholders"
Nardella *et al.*	2020	Reputational Penalties	"Specifically, reputation penalties occur when highly responsible firms are perceived as hypocritical and least responsible firms were not found culpable by a court of law"

It shall be noted that in this and the subsequent chapter we use the term CSiR consistently to describe irresponsible acts that firms may be involved. We do so because previous studies have defined CSiR in terms of misconducts as deliberate acts that are perpetrated by a firm with the intention to cause harm to its stakeholders (Greve *et al.*, 2010; Pozner, 2007). Meanwhile, we hold that CSiR is multifaceted in nature, and using the term CSiR accounts for the many actions that fall into this concept. Furthermore, CSiR accounts for both deliberate and accidental acts of irresponsible behavior. Stakeholders will be the ones to judge these actions and punish them accordingly based on their perceptions, even when they might not be illegal but perhaps just morally wrong (Kölbel *et al.*, 2017). Therefore, we follow the logic laid out by Barnett (2014: 677) in defining CSiR as “any publicly disclosed firm action that, under some set of conditions, a stakeholder would deem illegal, unethical, or socially irresponsible”.

Several studies have examined the perceived actions of the firm and how key stakeholders attribute blame drawing on attribution and stakeholder theory (Lange and Washburn, 2012), seeking to discover if involvement in some form of CSiR may invoke an emotional reaction from key stakeholder groups and consequently impact the firm (Antonetti and Maklan, 2016). Said studies have made important contributions to the CSiR domain by relying on the marketing and psychology literatures. However, they have adopted a rather consumer-centric approach, overlooking reactions from other groups of stakeholders. They have mainly accounted for consumer scepticism (Skarmeas, Leonidou and Saridakis, 2014), moral outrage (Antonetti and Maklan, 2016) and organizational memory (Mena, Rintamaki, Fleming and Spicer, 2016) to debate how consumer reactions may result in protest behaviors—e.g. boycotts, negative word of mouth campaigns and picketing—aimed to force firms to act more responsibly.

Sweetin *et al.* (2013) state that consumers willingly punish corporate brands for their perceived CSiR actions. Furthering these results, additional research has studied whether reactions to CSiR come from individuals or emerge as the result of collective movements (Grappi, Romani and Bagozzi, 2013; Nicol, 2018), and the role that the country of origin and national identity play in this, if any (Carvalho, Muralidharan and Bapuji, 2015). All this, in turn, will have important implications for firm performance. Yet, while certain studies confirm that stakeholder retaliation will result negatively on long-term profitability and value creation (Grappi *et al.*, 2013), others question stakeholder inconsistency in holding firms accountable due to limited attention, thus firms may face no consequences of their CSiR actions (Barnett, 2014)

In this regard, the business case for CSR and CSiR has been an overarching theme in the literature, showing the intimate relationship between both concepts in practice as well as in academia. Yet the debate concerning the role firms play in the business and society debate has been quite one-sided so far, the rationale being that if a firm is 'doing good' then it is 'avoiding bad' (Lin-Hi and Müller, 2013). This would in turn lead to the assumption that firms that invest in CSR are fulfilling their social responsibility. However, involvement in socially responsible activities does not automatically mean that firms are completely avoiding doing harm (Cai, Jo and Pan, 2012; Crilly, Ni and Jiang, 2016; Kang *et al.*, 2016; Muller and Kräussl, 2011; Strike *et al.*, 2006).

Reality is more nuanced than this straightforward relationship and there may be different shades of grey in the continuum between CSR and CSiR. For instance, certain firms may create a CSR profile in order to improve reputation and build legitimacy that serves them as insurance in the event of CSiR (Fiaschi, Giuliani and Nieri, 2017; Shiu and Yang, 2017; Muller and Kräussl, 2011). This kind of tactic is open to criticism since it can be viewed as a cynical means of controlling the message firms wish to broadcast, talking the talk but not walking the walk. In addition, Lange and Washburn (2012) acknowledge that involvement in CSiR is likely to be remembered far longer than CSR activities. In fact, corporate reputation is a valuable resource that takes time to build (Barnett, 2018; Deephouse, 2000; Hall, 1992), but can be easily damaged.

Nonetheless, despite the potential downsides that investing in CSR to offset CSiR may display, it can be particularly advantageous for stigmatized businesses or for those from controversial industries (Cai *et al.*, 2012; Groening and Kanuri, 2018; Luo, *et al.*, 2018; Walker, *et* *al.*, 2016). As an example, Kotchen and Moon (2012) conclude that firms operating in industries with a higher CSiR profile will ultimately invest more in CSR programmes rather than proactively work to reform any issues at hand. More recently, Luo *et al.* (2018) have investigated this phenomenon by focusing on the US petroleum industry, concluding that 'firms who give more, spill more'. They argue that only sincere stakeholder engagement and relationships built on mutual trust can go some way to holding firms accountable for their actions. Based on this assumption, it could be said that the more informed key stakeholder groups are, the more they will hold firms accountable for their actions, probably resulting in a reduction of CSiR actions.

Stakeholders have easier access to new communication and media platforms and corporate information (Enderwick, 2018), which affects the knowledge that they possess about any of firms' wrongful doings. Media reports provide them with evidence that they perceive as being more trustworthy than that published by the firms themselves. As such, the CSR activities that firms report are often seen as an attempt at self-promotion or greenwashing (Greenwood, 2007). Meanwhile, media reports are viewed as an independent indicator of corporate misconduct, potentially prompting stakeholder retaliation (Kölbel *et al.*, 2017). Yet despite increased media attention stakeholders often accept at face value a firm's commitment to behaving responsibly. Though firms are increasingly transparent in communicating their actions, some scholars have noted that firms can still deceive their stakeholders by failing to deliver on proposed CSR policies (Crilly, Hansen and Zollo, 2016). This is consistent with the argument laid out by Barnett (2014), who discusses the cognitive constraints that restricts the ability of stakeholders to assess all aspects of firm behavior, thus limiting their retaliation capacity.

In the following section we put our focus on stakeholders and the instrumental stakeholder theory to explain the impact of CSiR on the financial and non-financial performance of firms and how this relationship may be moderated by their political activity.

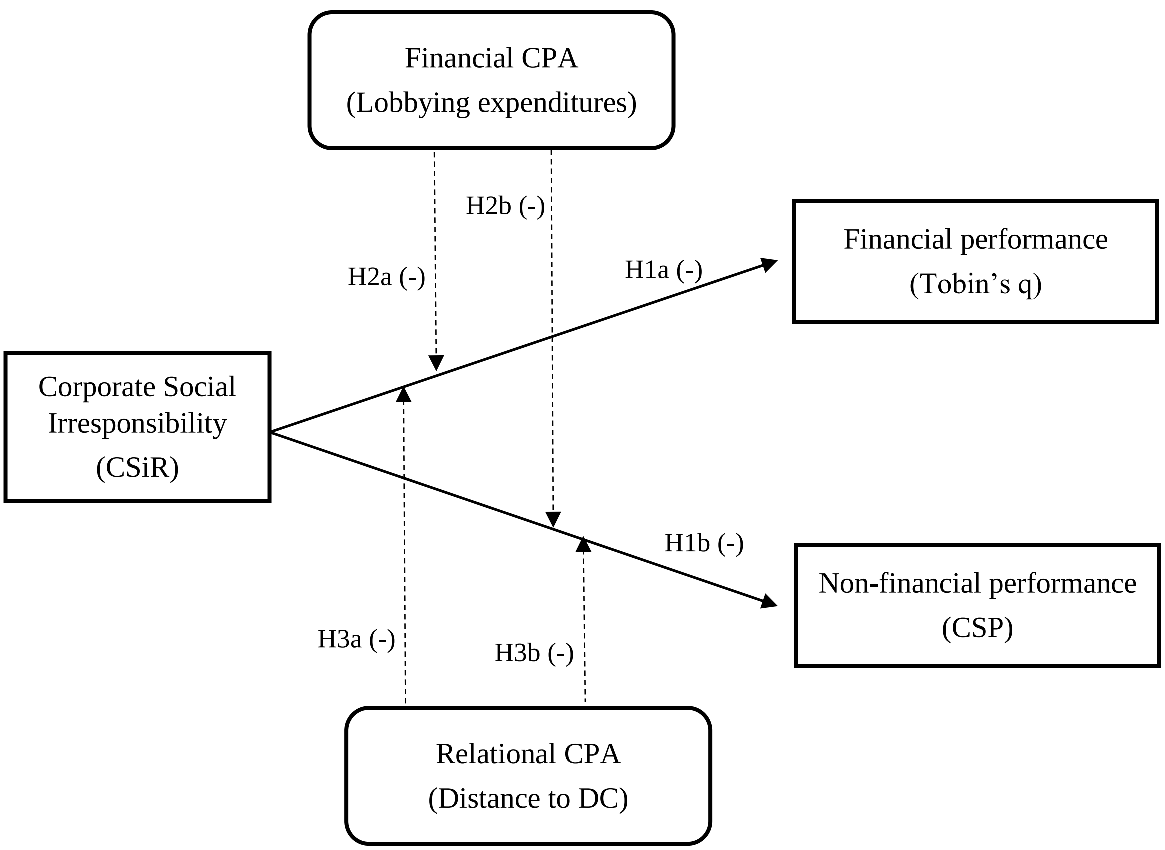
3.3 Theory and Hypotheses

Drawing on instrumental stakeholder theory (Donald and Preston, 1995; Jones, 1995), our theoretical framework seeks to further the study of the relationship between stakeholder engagement and performance (financial as well as non-financial). Highlighted as an important strand of stakeholder theory, IST promotes effective management of firm-stakeholder relations based on mutual trust and cooperation aimed at increasing competitive advantage. Taking its origins from transaction cost economics (e.g. Williamson, 1975) and stakeholder theory (Freeman, 1984), IST is ideally placed to understand the complexity of firm-stakeholder relationships. It weighs the almost contractual type benefits of applying a proactive strategy to engage with stakeholders to achieve the economic and societal aims and objective of the firm (Jones, 1995).

IST has been previously used in the strategic management and business and society literature (e.g. Gambeta, Koka and Hoskisson, 2018; Harrison, Bosse and Phillips, 2010; Henisz *et al.*, 2014; Margolis and Walsh, 2003). Examining the cause and effect process of decision making in firm-stakeholder relations, IST considers how managerial decisions to improve stakeholder relations enhance firm performance, and poor stakeholder management leads to a loss of potential long-term growth (Bosse and Coughlan, 2016). This makes it ideally placed to analyze how acts of CSiR can impact negatively on important stakeholder relations and potentially damage firm performance. Indeed, a renewed interest in the instrumental approach to the strategy-performance discussion (Bridoux and Stoelhorst, 2014) has opened some interesting areas of research. Nonetheless, as evidenced by the systematic review conducted in the previous chapter, the literature on CSiR and IST is considerably less developed than that of CSR.

Our research aims to contribute to IST by examining if and how an instrumental stakeholder approach can be fully realized when firms are involved in CSiR actions that harm their stakeholders. Our assumption of the IST approach is further questioned as we investigate the impact of lobbying activities by firms involved in CSiR. Research concerning firm's political activity and stakeholder theory is also underdeveloped, since studies have so far focused mainly on social capital theory to determine stakeholder relations (Rajwani and Liedong, 2015).We also seek to address this research gap by determining whether CPA strategies can buffer or intensify the outcomes of CSiR. Figure 3.1. summarizes the relationships that we hypothesize in the chapter and that we explain in more detail in the following subsections.

Figure 3.1. Summary of the hypothesized relationships.



3.3.1 CSiR and financial performance

Although studied to a lesser extent than CSR, several scholars have tried to shed more light on the CSiR and financial performance relationship in recent years. As previously mentioned in this chapter, increased media scrutiny puts firms' irresponsible actions in the spotlight, which negatively affects financial performance by making them more visible to stakeholders (Flammer, 2013; Kölbel *et al.*, 2017). This, in turn, may trigger a response from them. For instance, shareholders might punish firms in the stock markets by lowering their share price (Carberry, Engelen and van Essen, 2018; Groening and Kanuri, 2013, 2018).

But… why would firms participate in irresponsible acts if they are bound to have negative effects on their performance? Mishina *et al.* (2010) investigate the conditions under which high performing firms may engage in illegal acts that damage performance, citing as triggers for managers to willingly engage in CSiR. The authors argue that failure to meet what may seem abnormally high market performance expectations could encourage the firm to take unusually high risks, deemed either illegal or ethically wrong by both internal and external stakeholders. Yet it is not only deliberate acts of CSiR that can adversely affect firm performance. Muller and Kräussel (2011) analyze this through the lens of natural disasters and corporate responsiveness, finding that firms with a high reputation for CSiR experience adverse effects on share price.

Nonetheless, firms' awareness and preparedness for the potential of increased financial risk due to CSiR via increased social responsibility may serve them as an insurance mechanism that protects them from possible retaliation and further losses (Brammer and Pavelin, 2005; Luo and Bhattacharya, 2009), even if this insurance-like effect has a limit and its influence will rapidly decrease if the irresponsible acts continue (Shiu and Yang, 2017). Firms are not either 'perfect angels' or 'pure evil' and the existing literature acknowledges this by examining how CSR and organizational reputation affect the relationship between CSiR and firm performance.

Evidence suggests that if firms are heavily involved in CSR policies and practices, and invest in stakeholder engagement, this will reduce the negative impact on the firm (Barnett and Salomon, 2012; Walker *et al.*, 2016). This is obvious in controversial industries who invest heavily in social responsibility to improve firm value (Cai *et al.*, 2012). And it also becomes apparent at firm level, as papers such as Groening and Kanuri (2018), Kölbel *et al.* (2017), Nardella *et al.* (2020), Price and Sun (2017), and Walker *et al.* (2016) suggest.

Walker *et al.* (2016) assess the differing effects of CSR and CSiR on firm performance, pushing the term 'angel-halo effect'. Using ESG ratings from US-based firms, the results of this study show that if a firm is engaged in both CSR and CSiR activities, this results in increased financial performance. Though both these concepts impact differently on performance, results indicate that while acts of CSiR can damage reputation and affect stock price, overall financial performance continues to improve if a firm has a proven CSR record. Kölbel *et al.* (2017) seem to echo this logic, as they explore how involvement in CSR can reduce the impact of stakeholder sanctions when a firm is involved in social irresponsibility.

Research by Price and Sun (2017) empirically analyze the impact of CSiR on market performance, suggesting that involvement in socially irresponsible activities will impact negatively. The authors use IST to empirically show firms fully engaged in CSR can minimize CSiR and reduce stock market risk. Interestingly, results also indicate where a firm have a low CSR profile, these will also perform better over high CSR achieving firms if they are found to have engaged in morally questionable behavior. In Groening and Kanuri (2018), the authors sought to discover whether there is a connection between positive and negative same day media reports and a firm's stock trading volume. Using tactics such as impression management, the paper addresses how a firm's involvement in CSR activities has an almost insurance-like effect on firm performance.

More recently, Nardella *et al.* (2020) examined the relationship between CSiR and organizational reputation. Highlighting the unwanted attention of stakeholders who attribute blame to firm involvement in CSiR, Nardella and colleagues propose stakeholder perceptions of previous CSR and CSiR will affect firm reputation in the event of future CSiR. Although any incidents of CSiR actions will have a negative impact on the firm, the results of this study show that involvement in CSR activities such as philanthropy will create a positive reputational effect that contributes to positive abnormal returns.

Taking the above arguments as a whole, it becomes clear that an effective stakeholder management is therefore key to achieve a good financial performance. Because CSiR deteriorates the relationship between firms and their stakeholders, we suggest that firms will be more exposed to downturns in their financial performance. Hence, we expect that:

Hypothesis 1a. CSiR contributes to negative financial performance.

3.3.2 CSiR and non-financial performance

We have so far addressed studies that have sought to establish a relationship between CSiR and financial performance, analyzing the factors contributing to understanding this phenomenon. Yet non-financial performance measures are equally important and can be a significant factor in improving a firm's overall performance (Surroca, Tribó and Waddock, 2010).

An extensive body of the strategic management literature establishes a link between CSR and financial performance, some of which has already been highlighted in this thesis (e.g. Margolis and Walsh, 2003; Orlitzky *et al.*, 2003). Although most empirical studies suggest a slight positive association, there is still no final agreement on the shape that the relationship between these two variables displays. Scholars have criticized the omission of specific variables such as research and development, advertising, and intangible resources as evidence of the inconsistency of empirical results these studies have produced (Barnett, 2007; McWilliams and Siegel, 2000).

In this chapter, we consider the corporate social performance (CSP) of the firm to be an effective measure of non-financial performance. Although prior works have sometimes used CSR and CSP somewhat interchangeably, we shall differentiate between both concepts. In line with Luo and Bhattacharya (2009) we identify CSR as the policies and programs that firms engage in (e.g. cause-related marketing and corporate philanthropy), which are aimed at improving overall performance. By contrast, we understand CSP as the outcome of said programs and the stakeholders' overall assessment based on the success or failure of these initiatives compared to those of the firm's competitors (Ioannou and Serafeim, 2012; Orlitzky *et al.*, 2017). It is this assessment that can determine if stakeholders can reward or punish a firm based on its perceived actions. Therefore, for the purposes of this chapter, CSP will constitute the non-financial performance measure of a firm's CSR policies and practices.

Taking an instrumental approach to stakeholder management, Surroca and colleagues (2010) state that developing intangible resources will help a firm strengthen the relationships with both its market and nonmarket stakeholders, thus enhancing its CSP. But CSP is open to risk in the event of firm's involvement in CSiR. Godfrey *et al.* (2009) highlight that exposure to CSiR actions will result in firms reducing their financial investment in CSP programs due to their decreased shareholder value and the significant financial penalties they will likely incur as a result of their actions. Overall, the authors state that CSiR will potentially damage reputation and brand loyalty, ultimately impacting negatively on financial performance and can also create considerable damage to stakeholder relations.

Indeed, the reputational effects of CSiR is a prominent point of discussion in recent literature, in which the perceptions of stakeholders and how they attribute blame in the event of CSiR are discussed in connection to how firms use CSP as a means of building moral capital. Brammer and Pavelin (2005) predict that firms increase their social investments as a means of securing and shielding their reputation in the event of irresponsible behaviors, which aims to deflect the attention away from their actions and reduce the impact of stakeholder retaliation. Yet, this could act against the firm in unexpected ways should the firm be a repeat offender. Though the idea of irresponsible behavior is varied across the literature (Nardella *et al.*, 2020), there is agreement that stakeholders will hold firms accountable for their perceived actions (Lange and Washburn, 2012).

How stakeholders attribute blame in the event of CSiR actions may be determined on the amount of CSiR committed by firms. Price and Sun (2017) seem to confirm this in their assessment of CSiR and the differing expectations of the stakeholders associated with the firm. The authors highlight the risk to market value in the continued involvement of CSiR due to the enduring psychological nature of stakeholders and their ability to hold firms accountable. However, shareholders may have a slightly more forgiving perspective than other stakeholder groups. While stakeholders can willingly punish firms (Sweetin *et al.*, 2013), investors could overlook certain behaviors as long as they do not negatively impact on financial performance. As noted by Minor and Morgan (2011), firms cannot pursue this type of activity long-term because overcompensating for irresponsible actions can cause irreparable damage with stakeholders in the long-term.

Whereas Hypothesis 1a focused on the market performance of firms involved in CSiR, which we may assimilate to the response of shareholders to socially irresponsible acts, this Hypothesis 1b is more welcoming of the responses of the different stakeholders linked to the firm. In line with the existing literature, we propose that CSiR will damage the relationships that the firm has with said stakeholders, therefore suggesting that:

Hypothesis 1b. *CSiR contributes to negative non-financial performance (CSP)*

3.3.3 The moderating role of corporate political activity on the CSiR-performance link

Our next set of hypotheses investigates whether and how firms' corporate political activity (CPA)—the second related stream of nonmarket strategy—influences the relationship between CSiR and performance. As firms take on more politically active roles, they develop corporate actions designed to influence the outcomes of regulatory processes in their favor (Baron, 1995; Hadani, Doh and Schneider, 2018; Lawton *et al.*, 2014 Rajwani and Liedong, 2015). Assuming that most publicly listed firms are involved in some form of political activity, these strategies will by necessity be industry and context specific, contributing to the heterogeneity of political activities across firms.

Though the motivations behind CPA are quite broadly defined, Hillman and Hitt (1999) divide them into three categories: (1) financial; (2) informational and constituency building; and (3) relational. Each type consists of various actions ranging from corporate lobbying and political donations (either individual or in group through political action committees or PACs) to the development of personal relationships with political figures, among others (Hillman, 2003; Hillman, Keim and Schuler, 2004; Schuler, Rehbein and Cramer, 2002; Shirodkar and Mohr, 2015). A vast number of issues, such as environmental regulations (Kolk and Pinkse, 2007) are now influencing how governments shape policy, which can in turn affect business-government interactions. However, firms can only influence policy decisions by creating political access (Werner, 2015), which results in a significant increase in firms engaging in political activities.

Political activities are generally aimed at reducing regulation and lowering tax rates and tariffs (de Figueiredo and Richter, 2014). However, these benefits are primarily tied to the firm with little thought to other key stakeholder groups. Used as a means of building political capital and in some cases as an insurance mechanism (Hadani *et al.*, 2018), financial and relational CPA dominates the discussion in the literature (de Figueiredo and Richter, 2014; Hadani and Schuler, 2013; Hillman and Hitt, 1999; Rajwani and Liedong, 2015). Previous studies have focused on how it can influence government policy concerning corporate tax rates (Richter, Samphantharak and Timmons, 2009); investor reactions (Werner, 2017); creation of political ties and capabilities (Holburn and Zelner, 2010; Sun, Mellahi, and Wright, 2012); home institutional pressures (Shirodkar, Konara and McGuire, 2017; Zhang, Zhao and Ge, 2015); and political risk (De Villa, Rajwani, Lawton and Mellahi, 2018; Puck, Rogers and Mohr, 2013).

For the purposes of this chapter, we are going to focus on financial and relational CPA, which we proxy by lobbying expenditures and distance from the headquarters of the firm to the political capital of the country, respectively.

Financial CPA. Firms are increasingly investing resources in activities aimed at government actors who can influence policy in their favor. This is often done at the expense of other important stakeholder groups. Consequently, it is difficult to see how CSR and lobbying can complement each other while simultaneously taking an instrumental stakeholder approach. Research shows that lobbying activity has grown significantly, with firms donating five times more to government agencies than PAC campaign spending, which makes lobbying the most dominant form of financial CPA (Eun and Lee, 2019). Despite growing interest in financial CPA, there remains little consensus on its long-term benefits (Hadani and Schuler, 2013). Most will agree that involvement in lobbying will improve firm performance (e.g. Kim, 2019; Oliver and Holzinger, 2008; Werner, 2017). A practice-based example that illustrates this point is the aerospace company Lockheed Martin, whose $55-million investment in lobbying has yielded them $90 billion in defense contracts over said timeframe (Ridge, Ingram and Hill, 2017). However, other studies have found that this type of nonmarket strategy negatively affects financial performance (Aggarwal, Meschke and Wang, 2012; Hadani and Schuler, 2013; Rajwani and Liedong, 2015).

Since the primary agenda for a firm's political activity is to influence policy decisions in their favor, investments are focused on the specific agency and departments whose interests affect firm interests. Donations are therefore non-candidate specific and follow a pattern of long-term strategy aimed at increased political access and influence (Hadani *et al.*, 2019; Werner, 2017). This single-minded strategy can perhaps alienate other important stakeholder groups that view this type of political influence with deep suspicion. Indeed, increased financial lobbying is becoming a significant factor in how stakeholders view firms, potentially damaging firm reputation (McDonnell and Werner, 2016).

From an instrumental stakeholder angle, we suggest that the firms' stakeholder engagement strategies will be put into question if they are involved in CSiR, further damaging their performance (both financial and non-financial). We thus hypothesize that:

H2a. Financial CPA deepens the negative relationship between CSiR and financial performance.

H2b. Financial CPA deepens the negative relationship between CSiR and non-financial performance.

Relational CPA. Relational CPA is identified under different terms, yet the common construct is to develop political ties (Rajwani and Liedong, 2015). Following Kostovetsky (2015), in this chapter we take on a geographic-based measure (distance of firm headquarters to the political capital of the country; in our case, Washington DC), to assess the strength of political connections in the face of CSiR actions. Most firms' political strategies seem to allow for both financial and relational activities. To build long-term relationships with policymakers, firms participate in a myriad of initiatives, from actions such as directly engaging in-house lobbyists or offering former politicians lucrative corporate board positions (Hadani and Schuler, 2013; Hillman and Hitt, 1999) to strategically investing in corporate philanthropy with the aim of building political capital (Rehbein and Schuler, 2015).

Even if the benefits are questionable, we can also see a significant increase in this type of political activity (Akey, 2015). While it is generally noted that developed countries with functioning legal systems do not need to engage in relational CPA to gain a competitive advantage, this is not necessarily true. Previous research into relational CPA has primarily investigated factors concerning former politicians as board members (Hadani and Schuler, 2013; Goldman, Rocholl and So, 2009) and information strategies directly targeting policymakers, where firms provide specific policy makers with information regarding public policy related to their industry (Hillman and Hitt, 1999; Kolk and Pinkse, 2007). More recently, research has shifted to corporate sponsored activism (McDonnell, 2016) and shareholder activism (Hadani *et al.*, 2019) that seek to secure a competitive advantage, access to scare resources and gain political insurance.

Relational CPA is more difficult to investigate compared to financial CPA since authors use different measures in its study, given that the definition of 'connections' can be vague. For instance, previous studies have used measures such as relationships with members of government, policymakers and Senate Committee Members (Faccio, 2006; Kostovetsky, 2015) and political board appointments (Goldman *et al.*, 2009). From a stakeholder perspective, relational CPA means actively engaging with governmental stakeholders. In principle, this could help improve performance as suggested by prominent nonmarket strategy works (e.g. Baron, 1995). However, we suggest that this might not hold in the face of CSiR. Other stakeholders may perceive the development of political connections as a form of legal bribery that encourages firms to increase their risk taking and become more involved in actions that may be viewed as acts of CSiR—mistakenly believing that the relationships established provide political insurance against socially irresponsible behaviors. Therefore, we propose the following:

H3a. Non-financial CPA deepens the negative relationship between CSiR and financial performance.

H3b. Non-financial CPA deepens the negative relationship between CSiR and non-financial performance.

3.4 Methodology

3.4.1 Sample and data collection

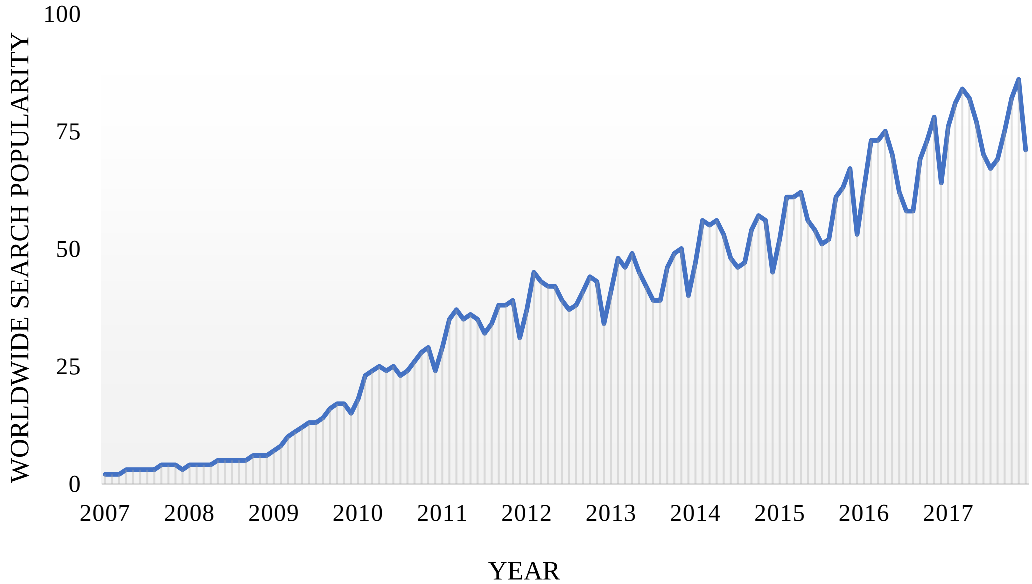
This chapter analyses the financial and non-financial performance impact of CSiR and its nonmarket boundary conditions. To test our hypotheses, we use a sample of firms indexed in the S&P 500 in 2007, covering a time span of 11 years (2007 to 2017). As Werner (2015) puts it, choosing this sample is most appropriate to perform analyses like ours for three key reasons: 1) S&P 500 members are particularly engaged in and sensitive to nonmarket initiatives; 2) the companies are representative of major industries leading the American economy (please see Table 3.2.); and 3) data availability.

Table 3.2. S&P 500 companies by industry (%).

2-DIGIT SIC CODES	INDUSTRY	PERCENTAGE
01 to 09	Agriculture, forestry and fishing	0,00
10 to 14	Mining	5,37
15 to 17	Construction	1,19
20 to 39	Manufacturing	38,37
40 to 49	Transportation and public utilities	13,12
50 to 51	Wholesale trade	3,18
52 to 59	Retail trade	8,15
60 to 67	Finance, insurance and real state	19,28
70 to 89	Services	10,93
90 to 99	Public Administration	0,40

The timeframe that we have selected is also relevant as it reflects a period of immense socio-political change due to repercussions of widespread corporate misconducts revealed after the 2008 financial crisis (Jones, 2010). In addition, the year 2007 marked a growing interest in social media, which contributed to a dramatic increase in the visibility of the good and not-so-good deeds of companies. Figure 3.2. displays the Google search trend of the *social media* keyword over the period of our study, showing the increased popularity that this concept has experienced worldwide since 2007.

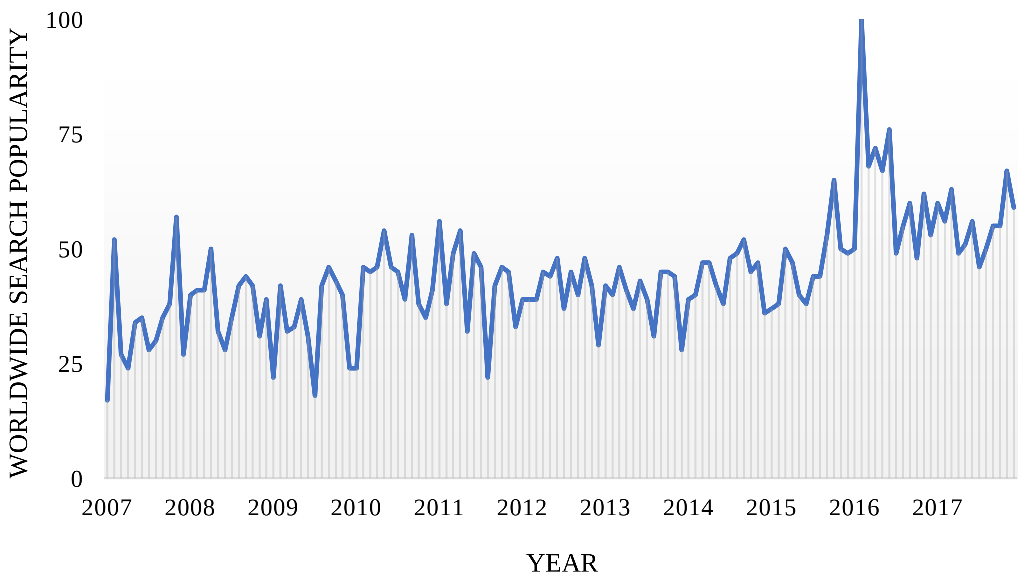
Figure 3.2. 'Social media' keyword worldwide search popularity.



Source: Google Trends.

2007 is also the year when the global financial crisis starts bringing to light some questionable business practices, which also increased the attention put in CSiR behaviors, as illustrated in Figure 3.3.

Figure 3.3. 'Misconduct' keyword worldwide search popularity.



Source: Google Trends (Category: Business and Industry).

The data collection process was consistent with the aims and objectives of the thesis as a whole and, more specifically, with those of this chapter. It shall be noted that one of the key contributions of our study relies in the novel database on CSiR actions that we developed for this thesis. Following similar studies in areas of social movement, CSiR and the corporate reputation literature (King, 2008; Kölbel *et al.*, 2017; Luo *et al.*, 2018; Muller and Kräussl, 2011; Nardella *et al.*, 2020), we collected and coded media publications included in the LexisNexis directory. To identify relevant news items, we used the following keywords: *accus**; *boycott*; *fine**; *fraud*; *guilty*; *harass**; *irresponsible*; *jail*; *lawsuit*; *legal proceedings*; *misconduct*; *product recall*; *scandal*; *sue**; *unethical*, *violat**. We double-checked that we had not overlooked any CSiR event by running an additional wider Internet search for each of the companies involved in the study.

The above process allowed for variation in the type, content and geographic location of the CSiR actions identified as well in the outlet where the information was published (McDonnell and King, 2013; McDonnell and Werner, 2016). After having identified the news items linked to our keywords and period of interest, we performed a manual content analysis to code them and verify that there were no duplicates or articles unrelated to the scope of our study. As a result, the final version of the database contains 420 CSiR events for which we have coded the following information summarized in Table 3.3.:

Table 3.3. CSiR database items.

ITEM	DEFINITION
Event code	Coding number to facilitate the identification of the CSiR event
Company name	Name of the S&P 500 firm involved in the CSiR event
Year	Year when the CSiR event took place (2007 to 2017)
Location	Country where the CSiR event took place

Media source	Media source reporting the CSiR event
CSiR issue	Description of the CSiR event
CSiR type	Type of CSiR event (i.e. fraud; bribery and corruption; competition; environment; discrimination; product safety; human rights; other).
Instigator(s)	Individuals and/or organizations exposing the CSiR event
Resolved	Indicates whether the CSiR issue has been resolved or it is still outstanding.
Outcome	Describes the consequences of the CSiR event (e.g. fine, boycott, case dismissal, casualties…).

It should be noted that the reliability and validity of using media sources as data has both supporters and critics. Concerns principally stem from the potential selection bias of the researcher and description bias of the reported publication (Earl, Martin, McCarthy and Soule, 2004; Ortiz, Myers, Walls and Diaz, 2004). Geographic location, political affiliations and institutions have also been previously identified as potential factors that can impede the reliability of the data (Oliver and Maney, 2000). Nonetheless, we believe that by expanding the keyword search to account for a wide range of CSiR events taking place across multiple countries, we have managed to reduce the selection bias of the events included in the database.

To create the additional variables included in the study, we have also turned to secondary data, which we have retrieved from a wide range of sources, such as COMPUSTAT, companies' annual reports, the U.S. Securities and Exchange Commission (SEC), Thomson Reuters ASSET4, the Centre for Responsive Politics. We will expand on each of them in the section below when we describe in more detail the variables included in the analysis.

3.4.2 Variables

3.4.2.1 Dependent variables

The dependent variables in the analyses featured in this chapter are financial and non-financial performance.

Financial performance. We proxied financial performance by the Tobin's q of the firm, which authors have used profusely in the performance literature due to its ability to capture shareholder expectations of the firm's future performance (Price and Sun, 2017). We calculated this measure following Chung and Pruitt's formula (1994):

$$\text{Tobin's q} = \frac{MVE + PS + DEBT}{TA}$$

being:

- *MVE:* market value (stock price x outstanding shares) at the end of the financial year.
- *PS:* liquidation value of the outstanding preferred stock.
- *DEBT:* short-term liabilities net of short-term assets plus book value of any long-term debt.
- *TA:* book value of total assets.

We retrieved the required data from COMPUSTAT and tried to complement any missing values by checking the companies' annual reports and the SEC website.

Non-financial performance. As previously mentioned, we used CSP as our non-financial performance measure. To create this variable, we relied on Thomson Reuters ASSET4's equal-weighted rating construct that accounts for the environmental, social, economic, and corporate governance performance of the firm in these areas. This ensures that we capture all aspects of a firm's CSP that affect both primary and secondary stakeholders (Hillman and Keim, 2001). Table 3.4. offers additional information on the definition of these CSP pillars included in ASSET4:

Table 3.4. Definition of the pillars that conform CSP.

CSP PILLAR	DEFINITION
Environmental	Measures a company's impact on living and non-living natural systems, including the air, land and water, as well as complete ecosystems. It reflects how well a company uses best management practices to avoid environmental risks and capitalize on environmental opportunities in order to generate long-term shareholder value.
Social	Measures a company's capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices. It is a reflection of the company's reputation and the health of its license to operate, which are key factors in determining its ability to generate long term shareholder value.
Corporate Governance	Measures a company's systems and processes, which ensure that its board members and executives act in the best interests of its long-term shareholders. It reflects a company's capacity, through its use of best management practices, to direct and control its rights and responsibilities through the creation of incentives, as well as checks and balances in order to generate long term shareholder value.
Economic	Measures a company's capacity to generate sustainable growth and a high return on investment through the efficient use of all its resources. It is reflection of a company's overall financial health and its ability to generate long term shareholder value through its use of best management practices.

Source: Thomson Reuters ASSET4 ESG content Datastream datatypes.

ASSET4 uses objective and publicly available data coming from reliable sources such as stock exchange filings, CSR and annual reports, NGO websites and several print and digital media publications. Former research in the domain of CSR and CSiR has commonly used the ASSET4 database because it provides a comprehensive and consistent methodology that has proven to be accurate, reliable and empirically valid (e.g. Cheng *et al.*, 2014; Eccles *et al.*, 2014; Flammer and Kacperczyk, 2019; Hawn and Ioannou, 2016; Ioannou and Serafeim, 2012; Jackson *et al.*, 2020; Jain and Zaman, 2020; Nardella *et al.*, 2020; Rathert 2016).

3.4.2.2 Independent variable

The independent variable in this chapter is the accumulated number of CSiR events a firm has been involved in from 2007 until year *t*. As previously explained in the data collection subsection, we created a database containing these events by collecting and coding media publications mainly included in the LexisNexis directory (although we ran an additional Internet search to verify that we were not missing any additional instances of CSiR). Figure 3.4. shows the percentage of firms in the sample that have been involved in CSiR events. 55% of them have not reported any CSiR during the period of study. As for the remaining 45%, most of them have been caught in either 1 or 2 instances of CSiR. Only less than 10% of the sample have participated in more than 3 acts of irresponsible behavior.

Figure 3.4. Percentage of firms in the sample involved in CSiR events.

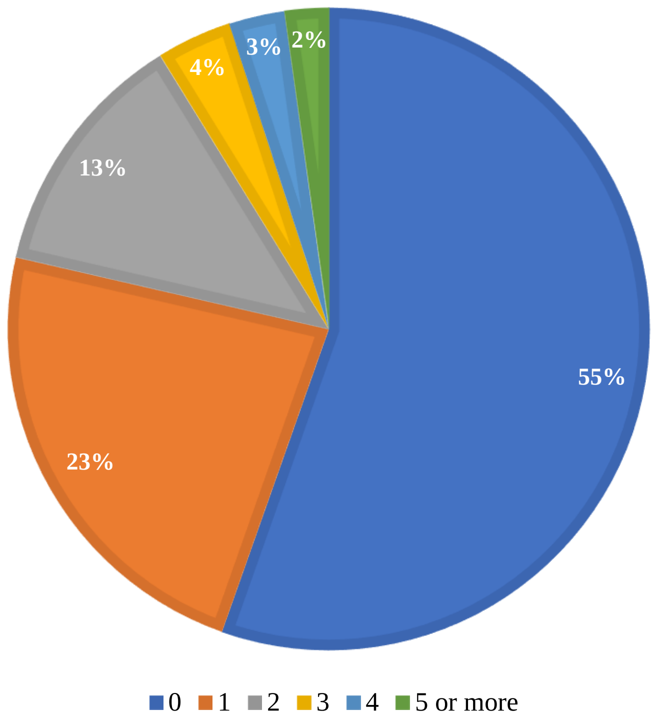
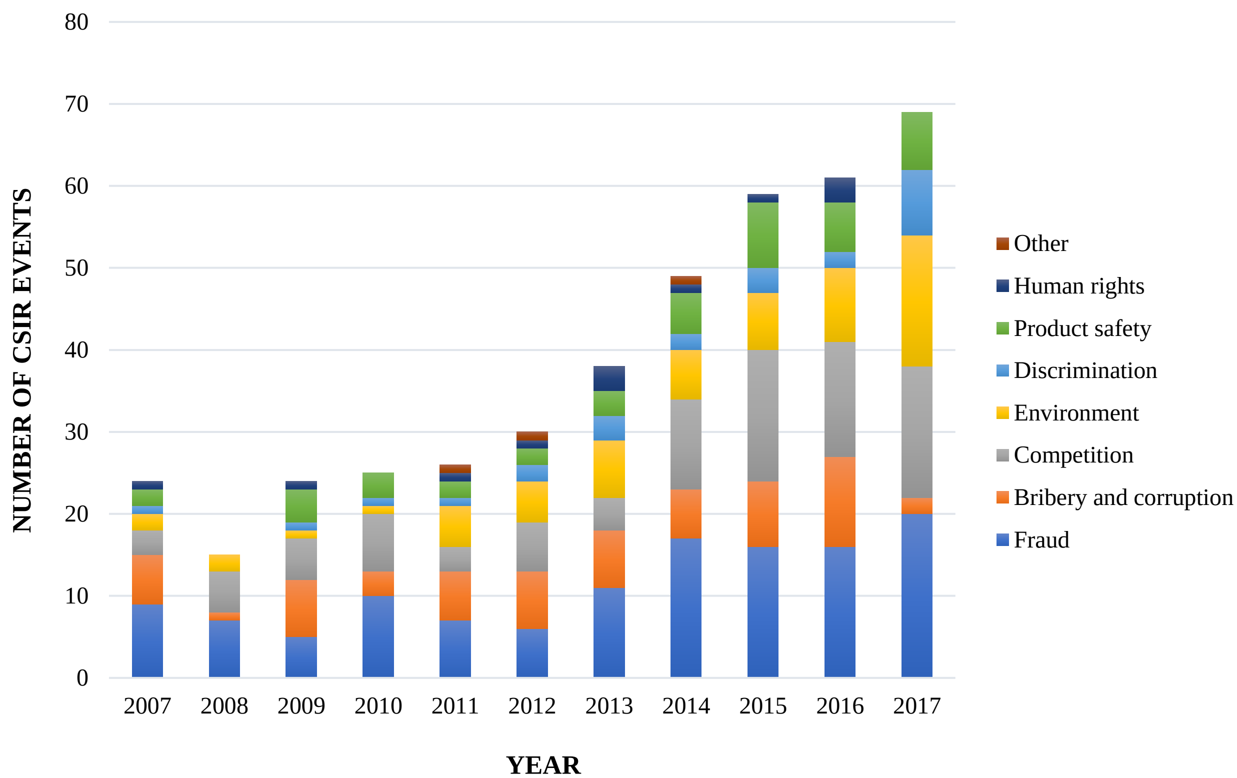


Figure 3.5. complements this information by displaying the number of CSiR events included in the database by year and type. The bars display a sort of U shape that reaches its peak in 2017. Fraud cases are the most common across the period, followed by those related to competition, bribery and corruption, and the environment.

Figure 3.5. Number of CSiR events by year and type.



Before moving to the explanation of the moderating variables, we shall note that we favor the definition of independent variable as the firm's CSiR track record over the CSiR events in *t* partly because of reverse causality issues. In this regard, it could be argued that not only CSiR impacts performance, but performance also impacts the likelihood of CSiR. To rule out this possibility, we ran several Granger causality tests (1969). Our results pointed out that, while that performance does not affect the CSiR track record of the firm [Tobin's q (χ^2 = 1.430; p-value = 0.232); CSP (χ^2 = 0.047; p-value = 0.828)], it does influence whether it is involved in CSiR in a certain year [Tobin's q (χ^2 = 16.333; p-value = 0.000); CSP (χ^2 = 15.257; p-value = 0.000)].

3.4.2.3 Moderating variables

In this chapter we analyze the moderating effect of CPA on the relationship between CSiR and financial and non-financial performance. Hillman and Hitt (1999) suggest that financial and relational actions are two of the main CPA mechanisms. Based on this argument and following recent papers by Hadani *et al.* (2018, 2019), we distinguish in our analysis between financial and relational CPA.

Financial CPA. The variable equals the lobbying expenditures of the firm in the U.S. within a certain year. We gathered the data from the Centre for Responsive Politics (opensecrets.org). This measure as well as the Centre for Responsive Politics dataset are widely accepted in the CPA literature, with many authors relying on them in their analyses (e.g. Delmas, Lim and Nairn-Birch, 2016; Kim, 2019; McKay, 2010; Shirodkar *et al.*, 2017).

Relational CPA. We proxied this variable by the distance (in miles) from the firm headquarters to the U.S. political capital, Washington D.C. In doing so, we attempt to capture the social connections potentially established between the firm and the highest-level political scene in the country with the aim of providing political influence.

3.4.2.4 Control variables

We controlled for several aspects that may also affect firm performance to rule out alternative explanations of our results. First, we controlled for ***firm size*** (measured as the total number of employees) and ***leverage*** (long-term debt to total assets). We retrieved the data to build these variables from COMPUSTAT, the companies' annual reports and the SEC website.

Second, we added several control variables related to the CSiR events included in the analysis:[4] ***type of CSiR*** (fraud, bribery and corruption, competition, environment, discrimination, product safety, human rights, and other); as well as dummies reflecting whether the firm had been ***fined*** or ***boycotted*** as a result of the CSiR event, and whether the CSiR issue was still ***outstanding***

[4] We created all the control variables outlined in this paragraph based on our unique CSiR database.

at the end of the study's timeframe. Following previous studies such as Kölbel *et al.* (2017) and Wang and Li (2019) we also controlled for the ***reach*** and ***severity*** of the CSiR event. Reach details the exposure to a potential audience that each article can reach based on the readership numbers and geographic range. Consistent with the standard practice, we categorized the published articles into three levels of reach: *low*, which includes industry and local publications as well as regulatory press releases (e.g. SEC, FTC, EPA); *medium*, which includes publications that have national importance and a readership of over 150,000 people; and *high*, which includes articles published in print and digital outlets that are considered to have a strong global presence (e.g. New York Times, Wall Street Journal, BBC, CNN). From this information, we built a measure that varies between 0 and 3 depending on the degree of reach (0 = no CSiR event; 1 = low reach; 2 = medium reach, 3 = high reach). As for the severity variable, this refers to the degree of harshness of the consequences faced by the firms who were involved and sanctioned due to their CSiR acts. We once again categorized them into *low*, *medium* and *high* and crated a measure varying between 0 and 3 depending on the degree of severity (0 = no CSiR event; 1 = low severity; 2 = medium severity, 3 = high severity). Table 3.5. below provides a detailed breakdown of the criteria followed to create these categories:

Table 3.5. Criteria used to build the *severity* variable.

CATEGORY	CRITERIA
Low	• No fine or fine/settlement of less than $50 million. • Contract violation. • Policy change.

Medium	• Fine/settlement between \$50 and \$250 million. • Fine/settlement of less than \$50 million but accompanied by a policy change or restatement of earnings. • Boycott/activism resulting in policy change.
High	• Fines/settlements of more than \$250 million. • Criminal convictions. • Closed operation/firm. • Discrimination cases resulting in pay-out and job losses. • Dramatic drop in share prices.

We also controlled for this factor by including a dummy variable taking the value of 1 if the firm belongs to the Fortune's 50 Most Admired Companies list and 0 otherwise.[5] We added another dummy variable taking the value of 1 if there is a right-wing party governing the State where the firm is headquartered and 0 otherwise. Finally, we introduced industry and year dummies.

3.4.2.5 Descriptive statistics

Table 3.6. contains the correlations and descriptive statistics of the key variables included in the analyses of this chapter. We mean-centered the main effect (i.e. CSiR) and the continuous moderating variable (i.e. lobbying expenditures) prior to calculating the interaction terms to prevent any high correlations between them (Jaccard and Turrisi, 2003). As appears on the table, most of the pairwise correlations are low (below 0.5) except for the one between reach and severity (0.89). However, our results are robust to the removal of these variables, which suggests that

[5] For more information on the methodology of this ranking, please visit: https://fortune.com/worlds-most-admired-companies/2019/methodology/ (Last accessed April 20, 2020).

multicollinearity is not a concern in our models. This is further confirmed by a Variance Inflation Factor (VIF) analysis of the variables included in the models containing the independent, moderating and control variables since the mean VIFs of the regressions are below the cutoff value of 10 recommended by Kutner, Nachtsheim, Neter and Li (2004: 409).

Table 3.6. Descriptive statistics and correlations.

		Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8
1	Tobin's q	1.61	0.98	0.07	7.65	1.00							
2	CSP	77.90	21.27	4.80	97.47	0.13	1.00						
3	CSiR	0.00	0.80	-0.39	5.61	-0.00	0.10	1.00					
4	Lobbying expenditures	0.00	3.93	-2.67	42.84	-0.08	0.24	0.24	1.00				
5	Distance to DC	-0.00	842.98	-445.08	3619.92	-0.03	-0.04	-0.00	-0.09	1.00			
6	Size	67.84	149.89	0.09	2300.00	0.08	0.16	0.04	0.22	-0.06	1.00		
7	Leverage	0.23	0.14	0.00	1.65	0.08	-0.04	-0.04	-0.08	0.00	-0.00	1.00	
8	Party ruling the State	0.77	0.42	0.00	1.00	0.09	0.01	0.00	0.05	-0.37	0.06	-0.03	1.00
9	Most admired	0.11	0.32	0.00	1.00	0.19	0.19	0.14	0.28	0.05	0.39	-0.08	0.04
10	Bribery and corruption	0.01	0.12	0.00	1.00	-0.03	-0.00	0.23	0.08	0.02	-0.00	-0.02	-0.01
11	Competition	0.02	0.15	0.00	1.00	0.06	0.05	0.26	0.08	-0.02	0.00	0.02	0.03
12	Environment	0.01	0.12	0.00	1.00	-0.03	0.05	0.22	0.13	0.05	0.04	-0.00	-0.05
13	Discrimination	0.00	0.06	0.00	1.00	-0.03	0.00	0.10	0.00	0.01	0.01	-0.00	-0.02
14	Product safety	0.01	0.09	0.00	1.00	0.05	0.03	0.17	0.05	-0.03	0.01	-0.01	0.02
15	Human rights	0.00	0.06	0.00	1.00	0.08	0.03	0.09	0.00	-0.01	0.03	0.01	0.00
16	Other	0.00	0.02	0.00	1.00	-0.00	0.00	0.04	0.04	-0.01	0.00	-0.02	0.01
17	Fined	0.01	0.08	0.00	1.00	0.02	0.03	0.11	0.07	-0.03	0.02	0.02	0.03
18	Boycott	0.00	0.05	0.00	1.00	0.07	0.00	0.05	0.02	0.01	0.02	0.01	0.01
19	Outstanding	0.01	0.11	0.00	2.00	0.03	-0.00	0.23	0.04	0.02	0.00	-0.01	-0.05
20	Reach	0.20	0.70	0.00	3.00	0.00	0.05	0.49	0.15	0.01	0.03	-0.04	-0.01
21	Severity	0.17	0.63	0.00	4.00	0.01	0.07	0.47	0.15	0.03	0.03	-0.03	-0.03

		9	10	11	12	13	14	15	16	17	18	19	20	21
9	Most admired	1.00												
10	Bribery and corruption	-0.01	1.00											
11	Competition	0.07	0.05	1.00										
12	Environment	0.04	0.04	0.05	1.00									
13	Discrimination	0.02	-0.01	0.04	-0.01	1.00								
14	Product safety	0.04	-0.01	0.02	-0.01	-0.01	1.00							
15	Human rights	0.06	-0.01	0.03	-0.01	-0.00	-0.01	1.00						
16	Other	-0.01	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	1.00					
17	Fined	0.07	0.03	0.20	0.30	-0.00	0.11	-0.00	-0.00	1.00				
18	Boycott	0.06	0.06	0.05	-0.01	-0.00	0.09	-0.00	0.41	-0.00	1.00			
19	Outstanding	0.08	0.26	0.11	0.14	0.11	0.11	0.28	-0.00	-0.01	0.14	1.00		
20	Reach	0.08	0.37	0.48	0.35	0.14	0.27	0.22	0.08	0.19	0.18	0.32	1.00	
21	Severity	0.10	0.35	0.46	0.34	0.18	0.29	0.18	0.06	0.17	0.19	0.42	0.89	1.00

3.4.3 Results

We present the results of our panel-data Generalized Least Squares (GLS) regressions in Tables 3.6. and 3.7. The final sample is composed of 300 firms and 2,533 observations. We shall note that we have some non-systematic missing observations due to some companies ceasing their activity or getting delisted during the period of study. We also lost some observations because of a lack of available data.

Table 3.7. reports the main results of the five panel-data GLS regressions with Tobin's q as the dependent variable. Model I only includes the control variables; Model II adds the main effect (i.e. CSiR) together with the moderating variables (i.e. lobbying expenditures and distance to DC); Models III and IV also introduce the individual interaction effects of CSiR; finally, Model V includes all the variables entered in the analysis. The results in this table do not back our hypotheses related to financial performance (H1a, H2a and H3a). The CSiR coefficients do not show a significant relationship between this variable and the firm's Tobin's q. The coefficients of the interactions between CSiR and lobbying expenditures as well as CSiR and distance to DC also lack significance. Therefore, we cannot confirm that CPA deepens the negative relationship between CSiR and the firm's Tobin's q.

Table 3.7. Main results of the panel-data Tobin's q regressions.

	Model I	Model II	Model III	Model IV	Model V
CSiR		-0.045	-0.042	-0.045	-0.040
		(0.123)	(0.164)	(0.122)	(0.184)
Lobbying expenditures		-0.010*	-0.009	-0.010*	-0.009
		(0.077)	(0.106)	(0.070)	(0.109)
Distance to DC		-0.000	-0.000	-0.000	-0.000
		(0.601)	(0.600)	(0.616)	(0.616)
CSiR*Lobbying expenditures			-0.001		-0.002
			(0.773)		(0.618)

CSiR*Distance to DC				-0.000	-0.000
				(0.385)	(0.344)
Size	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(0.019)	(0.028)	(0.027)	(0.027)	(0.026)
Leverage	0.596**	0.581**	0.581**	0.589**	0.592**
	(0.024)	(0.028)	(0.028)	(0.025)	(0.025)
Party ruling the state	-0.045	-0.049	-0.049	-0.048	-0.047
	(0.321)	(0.277)	(0.279)	(0.281)	(0.286)
Most admired	0.207**	0.214**	0.214**	0.212**	0.213**
	(0.018)	(0.014)	(0.014)	(0.015)	(0.015)
Bribery and corruption	-0.078	-0.067	-0.064	-0.067	-0.061
	(0.202)	(0.271)	(0.290)	(0.275)	(0.317)
Competition	-0.039	-0.024	-0.024	-0.028	-0.028
	(0.639)	(0.775)	(0.779)	(0.737)	(0.740)
Environment	-0.021	0.003	0.006	0.013	0.018
	(0.723)	(0.956)	(0.926)	(0.840)	(0.774)
Discrimination	-0.037	-0.044	-0.044	-0.048	-0.048
	(0.668)	(0.610)	(0.612)	(0.580)	(0.580)
Product safety	0.157*	0.161*	0.163*	0.153*	0.156*
	(0.063)	(0.057)	(0.054)	(0.066)	(0.060)
Human rights	0.170	0.166	0.164	0.162	0.159
	(0.417)	(0.442)	(0.445)	(0.449)	(0.456)
Other	-0.785***	-0.748***	-0.742***	-0.758***	-0.747***
	(0.004)	(0.007)	(0.008)	(0.006)	(0.007)
Fined	0.119	0.117	0.120	0.108	0.113
	(0.206)	(0.217)	(0.208)	(0.261)	(0.241)
Boycott	0.518*	0.499*	0.498*	0.501*	0.499*
	(0.061)	(0.078)	(0.078)	(0.075)	(0.075)
Outstanding	-0.183	-0.181	-0.179	-0.181	-0.178
	(0.114)	(0.128)	(0.134)	(0.127)	(0.135)
Reach	-0.021	-0.017	-0.017	-0.018	-0.018
	(0.382)	(0.499)	(0.505)	(0.475)	(0.483)
Severity	0.024	0.031	0.030	0.034	0.032
	(0.455)	(0.314)	(0.330)	(0.278)	(0.300)
Constant	0.857***	0.852***	0.852***	0.855***	0.855***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	19177.01	20245.37	20478.54	20125.93	20457.90
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,553	2,553	2,553	2,553	2,553
Number of firms	300	300	300	300	300

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3.8. displays the main results of the five panel-data GLS regressions with CSP as the dependent variable. Model I only includes the control variables; Model II adds the main effect (i.e. CSiR) together with the moderating variables (i.e. lobbying expenditures and distance to DC); Models III and IV also introduce the individual interaction effects of CSiR; finally, Model V includes all the variables entered in the analysis. In line with hypothesis H1b, CSiR has a negative impact on the firm's social performance. This relationship is deepened by the firm's lobbying expenditures, as predicted in hypothesis H2b. Hypothesis H3b does not receive support since the coefficient of the interaction between CSiR and distance to DC is not significant. As such, whereas financial CPA moderates the relationship between CSiR and CSP, relational CPA does not. As Figure 3.6. illustrates, lobbying expenditures deepens the negative relationship between CSiR and CSP.

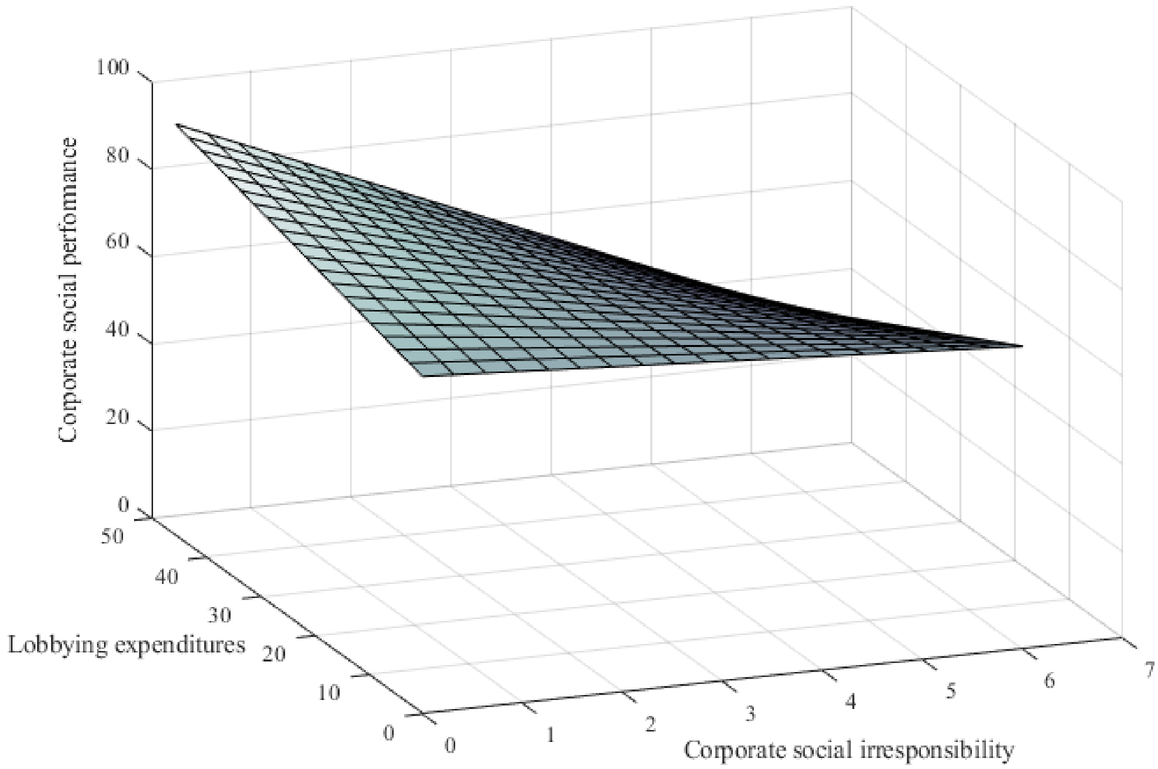
Table 3.8. Main results of the panel-data CSP regressions.

	Model I	Model II	Model III	Model IV	Model V
CSiR		-2.203***	-1.835***	-2.203***	-1.806***
		(0.000)	(0.008)	(0.000)	(0.007)
Lobbying expenditures		0.249**	0.301**	0.249**	0.304**
		(0.040)	(0.016)	(0.040)	(0.016)
Distance to DC		-0.001	-0.001	-0.001	-0.001
		(0.522)	(0.514)	(0.531)	(0.531)
CSiR*Lobbying expenditures			-0.164**		-0.177**
			(0.030)		(0.019)
CSiR*Distance to DC				-0.000	-0.000
				(0.925)	(0.710)
Size	0.016*	0.014*	0.013*	0.014*	0.013*
	(0.056)	(0.082)	(0.091)	(0.082)	(0.091)
Leverage	-10.551**	-11.219**	-11.123**	-11.185**	-10.979**
	(0.043)	(0.028)	(0.029)	(0.028)	(0.030)
Party ruling the state	-0.372	-0.301	-0.277	-0.295	-0.253
	(0.749)	(0.794)	(0.810)	(0.799)	(0.828)
Most admired	0.447	0.327	0.428	0.321	0.412
	(0.657)	(0.742)	(0.670)	(0.747)	(0.682)
Bribery and corruption	-0.520	-0.462	0.041	-0.461	0.085
	(0.807)	(0.833)	(0.985)	(0.833)	(0.969)

Competition	-2.391	-1.726	-1.658	-1.743	-1.721
	(0.129)	(0.270)	(0.276)	(0.253)	(0.248)
Environment	-2.452*	-1.641	-1.285	-1.603	-1.105
	(0.097)	(0.274)	(0.368)	(0.338)	(0.498)
Discrimination	-4.130**	-3.821**	-3.810**	-3.835**	-3.867**
	(0.022)	(0.022)	(0.023)	(0.024)	(0.022)
Product safety	-1.186	-0.697	-0.432	-0.728	-0.537
	(0.467)	(0.659)	(0.782)	(0.634)	(0.726)
Human rights	-0.542	-0.956	-1.179	-0.970	-1.253
	(0.837)	(0.689)	(0.628)	(0.684)	(0.608)
Other	1.484	2.844	3.864	2.805	3.784
	(0.685)	(0.463)	(0.324)	(0.471)	(0.338)
Fined	0.104	-0.006	0.484	-0.042	0.378
	(0.964)	(0.998)	(0.832)	(0.986)	(0.871)
Boycott	-2.561	-3.554	-3.723	-3.548	-3.709
	(0.462)	(0.332)	(0.313)	(0.334)	(0.319)
Outstanding	-4.575*	-3.355	-3.101	-3.356	-3.085
	(0.057)	(0.151)	(0.178)	(0.151)	(0.180)
Reach	0.081	0.452	0.491	0.449	0.479
	(0.893)	(0.468)	(0.424)	(0.473)	(0.437)
Severity	1.244*	1.267*	1.113*	1.276**	1.138*
	(0.068)	(0.052)	(0.087)	(0.048)	(0.077)
Constant	66.764***	66.975***	66.962***	66.986***	67.008***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	5913.00	5844.27	5627.49	5853.98	5630.37
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,553	2,553	2,553	2,553	2,553
Number of firms	300	300	300	300	300

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 3.6. Corporate social performance and corporate social irresponsibility by lobbying expenditure.



3.4.4 Additional tests

Apart from the core analysis that we display above, we run some additional regressions to further investigate the issue at hand. The dimensions conforming CSP can affect both primary and secondary stakeholders. To refine the effect on each type of stakeholders, we divided our CSP variable into two variables according to the type of stakeholder that the dimensions acknowledged affect. Building upon previous works such as Hillman and Keim (2001), we consider ASSET4 economic and corporate governance scores to be the ones affecting primary stakeholders. Meanwhile, we take the social and environmental scores as the ones influencing secondary stakeholders. Our results—featured in Tables 3.9. and 3.10.—are consistent with the regressions examining both types of stakeholders jointly.

Table 3.9. Main results of the panel-data CSP regressions (primary stakeholders).

	Model I	Model II	Model III	Model IV	Model V
CSiR		-1.909***	-1.616**	-1.909***	-1.534**
		(0.004)	(0.031)	(0.002)	(0.017)
Lobbying expenditures		0.035	0.076	0.032	0.085
		(0.754)	(0.494)	(0.777)	(0.456)
Distance to DC		0.000	0.000	0.000	0.000
		(0.934)	(0.944)	(0.891)	(0.890)
CSiR*Lobbying expenditures			-0.135		-0.172**
			(0.120)		(0.046)
CSiR*Distance to DC				-0.001	-0.001
				(0.348)	(0.228)
Size	0.007	0.007	0.007	0.007	0.007
	(0.163)	(0.183)	(0.205)	(0.178)	(0.202)
Leverage	-13.256***	-13.787***	-13.705***	-13.478***	-13.279***
	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)
Party ruling the state	-0.237	-0.177	-0.162	-0.124	-0.089
	(0.807)	(0.852)	(0.864)	(0.897)	(0.927)
Most admired	-0.339	-0.324	-0.237	-0.382	-0.287
	(0.799)	(0.803)	(0.857)	(0.768)	(0.826)
Bribery and corruption	-1.506	-1.325	-0.917	-1.309	-0.784
	(0.391)	(0.470)	(0.600)	(0.473)	(0.649)
Competition	-1.276	-0.688	-0.628	-0.845	-0.817
	(0.389)	(0.640)	(0.667)	(0.564)	(0.574)
Environment	-2.255	-1.462	-1.168	-1.097	-0.608
	(0.143)	(0.313)	(0.382)	(0.522)	(0.707)
Discrimination	-6.586**	-6.460**	-6.462**	-6.582**	-6.622**
	(0.018)	(0.019)	(0.019)	(0.016)	(0.014)
Product safety	-1.582	-1.212	-1.002	-1.499	-1.321
	(0.336)	(0.450)	(0.534)	(0.352)	(0.421)
Human rights	-0.442	-0.751	-0.944	-0.887	-1.174
	(0.879)	(0.773)	(0.720)	(0.741)	(0.669)
Other	-7.516*	-6.183	-5.321	-6.544	-5.559
	(0.078)	(0.164)	(0.231)	(0.152)	(0.228)
Fined	0.673	0.592	0.988	0.260	0.661
	(0.758)	(0.781)	(0.641)	(0.906)	(0.761)
Boycott	-0.972	-1.853	-2.002	-1.791	-1.960
	(0.819)	(0.673)	(0.650)	(0.691)	(0.668)
Outstanding	-4.272**	-3.496*	-3.279*	-3.504*	-3.229*
	(0.034)	(0.058)	(0.054)	(0.063)	(0.061)
Reach	0.259	0.557	0.587	0.523	0.551
	(0.622)	(0.303)	(0.272)	(0.336)	(0.305)

Severity	0.976	1.080*	0.957*	1.165**	1.035*
	(0.113)	(0.064)	(0.094)	(0.048)	(0.074)
Constant	71.009***	70.448***	70.440***	70.558***	70.581***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	96205.30	99691.20	101745.96	101454.23	103645.62
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,553	2,553	2,553	2,553	2,553
Number of firms	300	300	300	300	300

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3.10. Main results of the panel-data CSP regressions (secondary stakeholders).

	Model I	Model II	Model III	Model IV	Model V
CSiR		-1.512***	-1.256**	-1.515***	-1.295**
		(0.007)	(0.049)	(0.005)	(0.039)
Lobbying expenditures		0.358***	0.393***	0.359***	0.389***
		(0.007)	(0.003)	(0.005)	(0.003)
Distance to DC		-0.001	-0.001	-0.001	-0.001
		(0.473)	(0.469)	(0.460)	(0.461)
CSiR*Lobbying expenditures			-0.112*		-0.096
			(0.076)		(0.139)
CSiR*Distance to DC				0.001	0.000
				(0.300)	(0.450)
Size	0.023**	0.020**	0.019**	0.019**	0.019**
	(0.011)	(0.015)	(0.017)	(0.016)	(0.017)
Leverage	-1.623	-2.191	-2.129	-2.438	-2.329
	(0.731)	(0.634)	(0.643)	(0.595)	(0.612)
Party ruling the state	-0.250	-0.141	-0.123	-0.179	-0.154
	(0.834)	(0.906)	(0.918)	(0.882)	(0.898)
Most admired	0.984	0.823	0.891	0.867	0.915
	(0.296)	(0.394)	(0.352)	(0.370)	(0.341)
Bribery and corruption	0.260	0.174	0.519	0.162	0.461
	(0.876)	(0.915)	(0.759)	(0.922)	(0.788)
Competition	-1.888	-1.445	-1.400	-1.328	-1.318
	(0.128)	(0.233)	(0.239)	(0.259)	(0.256)
Environment	-0.981	-0.523	-0.281	-0.782	-0.512
	(0.470)	(0.716)	(0.841)	(0.608)	(0.734)
Discrimination	-0.828	-0.464	-0.452	-0.361	-0.375
	(0.684)	(0.806)	(0.811)	(0.845)	(0.840)
Product safety	-0.465	-0.061	0.122	0.152	0.258
	(0.764)	(0.969)	(0.936)	(0.920)	(0.863)
Human rights	0.494	0.156	0.008	0.257	0.106
	(0.820)	(0.938)	(0.997)	(0.897)	(0.958)

Other	3.945	4.786*	5.473**	5.049**	5.575**
	(0.109)	(0.059)	(0.032)	(0.048)	(0.030)
Fined	-0.514	-0.589	-0.252	-0.346	-0.115
	(0.753)	(0.723)	(0.876)	(0.838)	(0.945)
Boycott	-1.633	-2.329	-2.440	-2.373	-2.458
	(0.485)	(0.333)	(0.311)	(0.330)	(0.312)
Outstanding	-3.893*	-2.759	-2.590	-2.756	-2.612
	(0.064)	(0.158)	(0.187)	(0.162)	(0.188)
Reach	-0.247	0.043	0.070	0.069	0.086
	(0.629)	(0.931)	(0.887)	(0.891)	(0.863)
Severity	1.010	0.939	0.833	0.875	0.800
	(0.133)	(0.151)	(0.214)	(0.181)	(0.231)
Constant	54.488***	55.191***	55.182***	55.112***	55.124***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	3321.27	3463.11	3331.80	3454.80	3343.50
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,553	2,553	2,553	2,553	2,553
Number of firms	300	300	300	300	300

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Besides distinguishing between primary and secondary stakeholders, we conducted an additional test where we used an alternative measure of relational CPA; namely, the number of revolvers that firms employ. We retrieved this information from the Centre for Responsive Politics (opensecrets.org), which defines revolvers as government regulators, Congressional staff and even members of Congress who take new jobs with lobbying firms and private sector organizations that they often used to supervise. Consistent with our core results, Table 3.11. shows that the interaction between CSiR and the number of revolvers in the firm is non-significant in the Tobin's q regression. However, compared to our core results, it is negative and significant in the CSP regression. This seems to give support to the hypothesis that relational CPA deepens the negative relationship between CSiR and CSP, as represented in Figure 3.7.

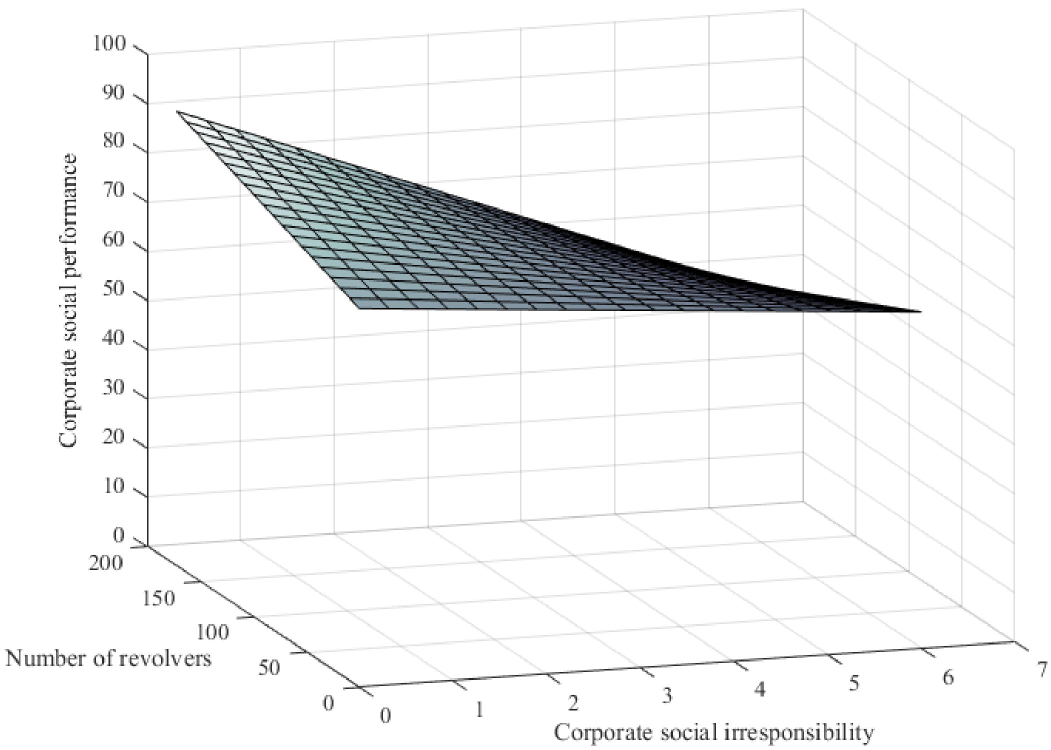
Table 3.11. Main results of the panel-data regressions (relational CPA measured as number of revolvers).

	Model I Tobin's q	Model II CSP
CSiR	-0.041	-1.964***
	(0.176)	(0.004)
Number of revolvers	-0.001	0.077**
	(0.408)	(0.014)
CSiR*Number of revolvers	-0.000	-0.033*
	(0.920)	(0.066)
Size	-0.001**	0.012
	(0.038)	(0.122)
Leverage	0.583**	-11.002**
	(0.028)	(0.028)
Party ruling the state	-0.042	-0.396
	(0.343)	(0.728)
Most admired	0.212**	0.258
	(0.015)	(0.802)
Bribery and corruption	-0.073	-0.125
	(0.226)	(0.954)
Competition	-0.027	-1.528
	(0.746)	(0.319)
Environment	-0.007	-1.459
	(0.898)	(0.315)
Discrimination	-0.039	-3.753**
	(0.654)	(0.026)
Product safety	0.157*	-0.239
	(0.061)	(0.877)
Human rights	0.160	-0.983
	(0.455)	(0.688)
Other	-0.733***	4.042
	(0.009)	(0.308)
Fined	0.120	0.512
	(0.206)	(0.818)
Boycott	0.496*	-3.442
	(0.075)	(0.335)
Outstanding	-0.169	-3.588
	(0.154)	(0.110)
Reach	-0.014	0.407
	(0.586)	(0.498)
Severity	0.026	1.267**
	(0.416)	(0.045)
Constant	0.832***	66.831***
	(0.000)	(0.000)
Industry and year dummies	Included	Included
Wald χ^2	19795.42	5495.42

	(0.000)	(0.000)
Observations	2,553	2,553
Number of firms	300	300

Robust pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 3.7. Corporate social performance and corporate social irresponsibility by number of revolvers.



Finally, we carried out a Durbin-Wu-Hausman test to discard endogeneity issues in our variable of CSiR. The test turned out to be non-significant (Tobin's q regression: χ^2 = 1.95, p-value = 0.1631; CSP regression: χ^2 = 1.69, p-value = 0.1939), thus indicating that this variable does not seem to be endogenous. We shall note that to run the Durbin-Wu-Hausman test, we introduced the number of accumulated CSiR incidents in *t-1* as an instrument of CSiR in *t*.

3.5 Discussion

In this chapter we seek to better understand the potential impact of CSiR on firm performance. Using a sample of S&P 500 firms and a unique dataset of CSiR events, we explore the following: (1) the effect of CSiR on financial and non-financial performance; and (2) the moderating effects of CPA, investigating the financial and relational tactics used by firms to strengthen their competitive advantage. In our additional tests we also put the focus on whether these relationships differ depending on whether we refer to primary or secondary stakeholders.

Broadly speaking, our findings suggest that there is no significant relationship between CSiR and firms' financial performance. In contrast, they show that CSiR negatively impacts non-financial performance, and that lobbying expenditures further deepens this negative relationship. Interestingly, while we do not obtain significant results for a firm's political connections using the geographic measurement of '*distance to DC*', we do find a significant negative moderating relationship when we define relational CPA in terms of the hiring practices of firms of ex government employees (i.e. '*revolvers*').

In the first chapter we noted that firms are under increasing pressure from their stakeholder groups to behave more responsibly and to strategically align their stakeholder strategy with their performance goals. However, our dataset shows that there are still large corporations that fail to keep an unblemished record, being involved in various actions of corporate wrongdoing. Based on IST, we see these as having the potential to erode any gains that the firms may make. It seems that the paradox of 'being good while being bad' is still a workable solution for many firms in today's complex and competitive business environment (Strike *et al.*, 2006). Referring to our definition of CSiR, firms engage in both accidental and intentional CSiR acts, adding a level of complexity to the concept of CSiR and how it is viewed differently by different types of stakeholders. Whereas there is no significant relationship between CSiR and financial performance, there is a negative impact of CSiR on non-financial performance. We suggest that these results are in line with Groening and Kanuri's (2013) claim that shareholders may find CSiR an acceptable behavior under certain conditions, for instance, investors may see short-term financial loss more acceptable compared to the clean-up costs associated with environmental damage. Meanwhile, using a broader definition of the dependent variable via CSP that considers additional stakeholders that may be directly impacted by firm CSiR actions (e.g. nonmarket stakeholders), we observe that firms are more likely to be punished (Oikonomou *et al.*, 2012; Surroca *et al.*, 2010; Wang and Bansal, 2012).

Our use of *Tobin's q* reflects investor expectations, so while CSiR may draw some initial backlash when the CSiR is exposed, more long-term consequences are not anticipated. By analyzing the performance of the firm in capital markets separately to firm's non-financial performance, we gain a more detailed understanding of how stakeholders interpret CSiR events. Our financial performance results build on prior studies that show that shareholders will accept a short-term shock on performance should this be an isolated incident that they anticipate has no further repercussions on long-term performance (Kang *et al.*, 2016; Groening and Kanuri, 2013; Price and Sun, 2017; Walker *et al.*, 2016). Being shareholders primary stakeholders, we could argue that there is no clear sanction of this group related to the firms' CSiR incidents. In fact, shareholders may even expect some instances to CSiR in their quest to achieve their strategy-performance objectives. Studies such as Kölbel *et al.* (2017) and Walker *et al.* (2016) show that, where CSR and CSiR coexist, firms see no negative financial repercussions. Indeed, these studies event report an increase in financial performance due to a CSR insurance-like effect.

In this chapter we also tested whether CSiR negatively impacts on a firm's non-financial performance, and our results empirically support this hypothesis. By doing so, our research extends works such as Chen *et al.* (2018), Price and Sun (2017) and Walker *et al.* (2016), which focus on financial measures. We use CSP as our measure of non-financial performance using the weighted scores that Thomson Reuters ASSET4 database assigns to firms concerning their economic, environmental, social and governance activities. The successful outcomes of CSR policies and initiatives are reflected through enhanced corporate reputation, brand loyalty, operational efficiency, and employee commitment, as firms increasingly see the benefit of this strategic approach (Godfrey *et al.*, 2009; McWilliams and Siegel, 2011). However, this requires high levels of investment of firm resources, which will subsequently be heavily undermined when CSiR occurs. Our results show the damage to CSP in the face of CSiR is more visible than financial performance downturns. In fact, according to Lange and Washburn (2012), stakeholders will remember CSiR events far longer than CSR actions, which means that stakeholders could continue punishing the firm long after the event has occurred.

Besides examining the impact of CSiR both on financial and non-financial performance, our study contributes to the existing nonmarket strategy and instrumental stakeholder theory literatures by considering the moderating effect of CPA as a means of reputational or political capital which, to the extent of our knowledge, has been overlooked by prior works. We specifically examine how stakeholders perceive financial and relational CPA when they coexist with CSiR. Whereas our findings evidence that financial CPA (i.e. lobbying expenditures) further damages the relationship between CSiR and CSP, they show no link between relational CPA (i.e. distance from the firm headquarters to DC) and CSP. We have found no significant relationship in either case when using financial performance as our dependent variable.

We interpret these results as shareholders not having a solid stance for or against CPA when the firm behaves irresponsibly. In other words, they neither punish nor reward lobbying and political connections if CSiR occurs. Meanwhile, when we consider the reaction of additional stakeholders through CSP, we see evidence that financial CPA damages stakeholder relationships. Given that the aim of CPA is to influence government policy in the favor of firms to enhance their competitive performance (Lawton *et al.*, 2013; Oliver and Holzinger, 2008; Schuler *et al.*, 2002), this result might be caused by the loss of stakeholder trust and their perception that the firm is engaged in shady activities that prompt them to behave more irresponsibly.

Interestingly, we see no negative repercussions from our analysis with the geographical measurement of relational CPA. Political connections through proximity could be viewed as a more naturally occurring relationship that firms do not manipulate. This point is somewhat validated by the additional test that we ran in which we modified the definition of our relational CPA variable. When using the number of revolvers instead of the distance from the firm headquarters to DC, we find a significant moderating relationship that resembles that of financial CPA. We suggest that this may result due to stakeholders' awareness of firms actively pursuing political connections to generate political capital, which they likely perceive as an attempt by firms to hide or cover up their actions.

All in all, stakeholders seem to regard CPA as having a dark history side to it, often seeing it as a form of legal bribery. This is further enhanced when CSiR occurs. It is important to note here that, nonmarket researchers seek to align the two strands of nonmarket strategy– i.e. CSR and CPA (den Hond *et al.*, 2014; Lawton *et al.*, 2014; Liedong *et al.*, 2015). However, while some researchers have shown that this is indeed possible in certain circumstances, our research suggests that when CSiR occurs and firms are simultaneously involved in CSR and CPA via lobbying, any gains made through these practices are eroded. This could be interpreted as CSiR making it almost impossible to align these two nonmarket strategies to successfully improve firm performance.

3.6 Limitations and Future Research Directions

An important aspect of this research is centered around how firm actions positively and negatively affect primary and secondary stakeholders. We note early in the chapter that stakeholder profiles are shifting, as previously dismissed stakeholder groups are becoming increasingly more vocal and active on social media platforms. This is an important point for firms to pay more attention to. As firms invest in more areas of CSP to boost reputation, brand loyalty and employee morale, we note the importance of engaging with stakeholder groups to build long-term relationships. Stakeholder attention plays an important role in the ability of these groups to sanction firms, as certain grassroots organizations grow, these can have implications for firms who may engage in tactics seen as covering up their actions. It is important for firms to go beyond just superficial reputation boosting tactics that may provoke stakeholder retaliation when CSiR actions are uncovered.

Building on this, we note with interest a rise in shareholder activism. Institutional shareholders are becoming more aware and engaged in environmental, social and governance (ESG) issues that have the potential to impact on their investments. These shareholders and investment groups can apply pressure to firms to divest from certain investments deemed harmful. This can be particularly related to the oil and gas and other ‘sin’ industries, particularly concerning links to environmental issues. Our results suggest that shareholders may be forgiving when CSiR occurs, however, with growing participation of big investment in this type of activism, where CSiR occurs, shareholders may see a threat to their investment and could apply pressure to the firm.

Additionally, we see our research having important implications for firms who are engaging in increased levels of political activity. Indicated in our results, CPA activity can damage stakeholder relations as it can be viewed as covering up actions that are harmful to a firm’s stakeholders. We are seeing large, high profile firms increasing their political investments far beyond what is invested in CSP activities. As attention from stakeholders on this activity grows, firms will want to prepare for how this can damage stakeholder relations and erode any gains made by taking an instrumental approach.

Despite several contributions of the analysis presented in this chapter, there are also some limitations that offer interesting opportunities for further research. First, our sample is restricted to S&P 500 firms, which means that we focus on large corporations that are based in the US. Future studies could examine whether our results hold in other research settings, such as developing countries and/or small and medium enterprises (SMEs).

We also see an opportunity to build on research by Nardella *et al.* (2020) by exploring the impacts of the individual CSiR categories developed from our CSiR database. Using an instrumental approach, a more detailed analysis of each CSiR category and its potential impact on market and nonmarket stakeholders could expand on how and under what circumstances stakeholders might be more likely to sanction firms.

Another interesting avenue to explore is the growing activism of grassroots campaigns that are working to expose serious firm CSiR acts through online social media campaigns. Lately there has been a rise of online activists such Sleeping Giants[6] and Stop Funding Hate[7] that are running successful campaigns targeting some of the biggest brands in the world to stop advertising on big technology platforms such as Facebook, Instagram and other social media platforms. We conceive this as evidence of firms actively changing their market and nonmarket strategies due to stakeholder

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[6] https://www.nytimes.com/2018/07/20/business/media/sleeping-giants-breitbart-twitter.html (Last accessed July 7, 2020).
[7] https://stopfundinghate.info/ (Last accessed July 7, 2020).

pressures. Furthermore, though we acknowledge the impact of stakeholders' ability to boycott firms based on their perceived prior CSiR actions, we do not understand yet the true implications of these actions in terms of firms' change of behavior. Are they genuine in their pledges to 'do better' or is this just virtue signaling to its stakeholders to avoid short-term negative impacts?

Additionally, future research could conduct an event study on cumulated abnormal returns before, during and after identified CSiR actions. CSiR has largely been neglected by business and society researchers, yet this concept offers extremely fruitful opportunities to understand organizational behavior in what we are experiencing as extremely turbulent times for firms and their stakeholders.

Finally, we would call for future research to advance the CPA literature using stakeholder theory frameworks because, as we pointed out earlier in this chapter, the CPA literature has largely ignored the impact of firm political actions on stakeholder relationships. For instance, it could be interesting to investigate how nonmarket stakeholders perceive political appointments to executive boards.

So far, we have explored how CSiR impacts on financial and non-financial performance. In the final empirical chapter in this thesis, we turn our attention to the effect of CSiR on the wider core strategic decisions that firms implement. We will examine how CSiR influences external growth decisions, specifically focusing on mergers and acquisitions (M&As).

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CHAPTER 4 - CORPORATE SOCIAL IRRESPONSIBILITY AND MERGERS AND ACQUISITIONS

4.1 Introduction

Firms face an increasingly complex and competitive global business environment. Pressure goes beyond meeting shareholder expectations, given the growing importance of other stakeholder groups external to the organization (Muller, 2018). Seeking higher shareholder returns may result in negative events where, in some instances, stakeholders face serious consequences beyond financial loss (Godfrey, Merrill and Hansen, 2009; Lin-Hi and Müller, 2013). For this reason, research on how to preserve shareholder wealth without adversely affecting other stakeholders has grown substantially in the last decade, as evidenced in the previous chapter (e.g. Nardella, Brammer and Surdu, 2020; Price and Sun, 2017; Strike, Gao and Bansal, 2006). The pursuit of “do good” and “do-no-harm” research has gained traction with the rise of corporate misconduct, both accidental and intentional (Crilly, Hansen and Zollo, 2016; Muller and Kräussl, 2011). However, contradictory evidence of firm behavior and its impact on firm performance calls for further research. Firms, specifically large multinationals, have shown significant capacity for philanthropic behavior (Muller and Kräussl, 2011). Yet, at the same time, they willingly engage in irresponsible practices such as shifting operations to locations with lax regulations and contributing to social issues and environmental pollution (Surroca, Tribó and Zahra, 2013).

These practices call into question firm strategic decision making, how these actions impact stakeholders, and the inevitable effects on firm performance. As discussed in the previous chapter, accounting for nonmarket factors is increasingly important, particularly at an international level. Global supply chains, different institutional environments and changing consumer behavior are all factors that drive firm response and shape their competitive environment (Altura, Lawrence and Roman, 2019; Holburn and Vanden Bergh, 2014; Ioannou and Serafeim, 2012; Muller, 2018). As such, market and nonmarket drivers push firms to take a more holistic approach to address these issues with their stakeholders.

Taking an instrumental stakeholder perspective, the strategic use of corporate social responsibility (CSR) has numerous benefits for firm performance (Baron and Diermeier, 2007; Husted and Allen, 2007), both domestically and internationally. Researchers have identified advantages of strategic CSR, such as reducing the cost of doing business across national borders (Eden and Miller, 2004); new product development connected to eco-labeling (McWilliams and Siegel, 2011); and premium pricing (Husted and Allen, 2007). Yet others still see CSR as a shareholder expense (Chen, Lu and Liu, 2019). Most arguments stem from the financial implications of CSR and whether it is profit enhancing (McWilliams, Siegel and Wright, 2006; Siegel and Vitaliano, 2007). Improved reputation (Doh, Howton, Howton and Siegel, 2010), the role of institutions (Campbell, Eden and Miller 2012), and organizational legitimacy (Schrempf-Stirling, Palazzo and Phillips, 2016) are just some of the topics explored through this nonmarket focus. Nonetheless, despite the diversity in research topics, the shareholder versus stakeholder debate in value creation is still the most prolific.

Though CSR has become a mainstream aspect of academia and business practice, it is still largely associated as either value adding or destroying, and research has developed along these lines (Yin and Jamali, 2016). The questions of how, why, and whether firms should engage in socially responsible business practices remains unclear (Schreck, 2011). Nevertheless, while the strategic benefits of CSR as performance boosters are continually contested, the concept of corporate social irresponsibility (CSiR) is largely absent from these debates. Taking a strategic approach to CSR can be met with distrust from stakeholders if firms have been involved in CSiR. As discussed in the previous chapter, the impact of CSiR on financial and non-financial performance has the potential to impact firm growth. Prior studies have shown that firms with high CSR profiles that also engage in CSiR will lose trust from stakeholders, leaving them vulnerable to stakeholder sanctions (Brammer and Pavelin, 2005; Groening and Kanuri, 2013). These actions also impact investor confidence, as CSiR may signal that the firm will be unable to recover from the resulting consequences (Carberry, Engelen and Van Essen, 2018). However, an alternative strand of research has recently begun to investigate CSR as a risk management strategy in which firms use responsible initiatives as reputational insurance against CSiR (Minor and Morgan, 2011; Nardella *et al.*, 2020).

Building on these prior works this chapter explores options available to firms that divert attention from CSiR behavior, analyzing how firms adapt new strategic plans that signal to investors that they have the necessary resources for future growth. It is our point that firms involved in CSiR will seek to realign core strategies by announcing new investment decisions at home and abroad. Nevertheless, choosing the most appropriate external growth strategy is a complex process determined by internal constraints and the external environment (Hitt and Tyler, 1991; Meyer, Estrin, Bhaumik and Peng, 2009).

The above corporate decision has sparked research concerning firm-industry characteristics (Reddy, 2014), location choice (Kim and Aguilera, 2016), national culture (Kogut and Singh, 1988), and institutional diversity (Jackson and Deeg, 2006). It is generally understood that firms can expand their operations inorganically through joint ventures (Kogut, 1988; Lane, Salk and Lyles, 2001), strategic alliances (Grant and Baden-Fuller, 2004; Gulati, 1995), and/or mergers and acquisitions, both domestic and cross border (Cartwright and Schoenberg, 2006; Shimizu, Hitt, Vaidyanath and Pisano, 2004).

Despite the abundance of research on these topics, there is no general agreement on the suitability of either of these strategies. Factors concerning product/industry relatedness, degree of integration, regulatory barriers, and environmental uncertainly affect this strategic choice (Dikova and Brouthers, 2016). Indeed, the existing literature suggests that growth strategies are firm and industry specific, where the importance of strategy-related aspects may be of significant value to one firm but of less importance to another (Ghauri and Buckley, 2003; Hennart and Reddy, 1997; Reddy, 2014; Yin and Shanley, 2008).

However, literature and practice suggests mergers and acquisitions (M&A)[1] are the most popular or preferred growth strategy for firms to pursue (e.g. Bauer, Dao, Matzler and Tarba, 2017; Bauer and Metzler, 2014; Capron, 1999; Cartwright and Schoenberg, 2006; Das and Kapil, 2012; Datta, 1998; Ferreira, Santos, de Almeida and Reis, 2014; Gaur, Malhotra and Zhu, 2013; Kling, Ghobadian and O'Regan, 2009). M&As allow firms to grow at a faster rate due to access to already established production facilities, distribution networks, and customer base (Huyghebaert and Luypaert, 2010). Besides, they are considered a cheaper alternative compared to other external growth strategies because payment processes may involve stock options, limiting the use of a firm's cash flow (Reddy, 2014).

Despite increased turbulence in financial and political arenas (e.g. Brexit, trade conflicts, and the financial crisis), M&A activity continues to grow across the globe. In 2017, a reported total of 52,740 transactions took place worldwide, with an estimated value of $3.7 trillion dollars.[2] In 2019, JP Morgan reported a further increase of M&A activity valued at $4.1 trillion, evidence of the presumed popularity and importance of this method of growth.[3] Yet research is split on positive

[1] We use M&A and merger interchangeably throughout this chapter.
[2] https://imaa-institute.org/mergers-and-acquisitions-statistics/ (Last accessed February 29, 2020).
[3] https://www.jpmorgan.com/jpmpdf/1320746694177.pdf (Last accessed February 29, 2020).

returns from this type of investment. Indeed, a significant proportion of research reports that the majority of M&As fail, with some citing failure rates of over 70 percent (Bauer and Matzler, 2014, Bauer *et al.*, 2017; Brouthers, 2002; Cartwright and Schoenberg, 2006; Christensen, Alton, Rising and Waldeck, 2011).

We take note of prior literature that establishes M&A as an important strategic tool to create economic value. Despite the abundance of research on this topic, there is inconsistency concerning the causes of its high failure rate (Bauer and Matzler, 2014; Brouthers, van Hastenburg and van den Ven ,1998; Cartwright and Schoenberg, 2006; Chatterjee, 2009; Cording, Harrison, Hoskisson and Jonsen, 2014; Sarala, Junni, Cooper, and Tarba 2016; Stahl and Voight, 2008). This chapter will focus on M&A announcements, as research points that a significant number of M&As fail or are abandoned at this early stage of negotiations (Angwin, Paroutis and Connell, 2015).

The M&A process is a set of complex negotiations with multiple stakeholders using significant and valuable resources, though stakeholder engagement is notably absent from the research in this domain (Barney, 1998; Bettinazzi and Zollo, 2017; Waddock and Graves, 2006). Consequently, the high failure rate in the early stages leaves us questioning the motivations behind firms increased activity in this regard. In this chapter, we address this issue by examining corporate reputation and corporate political activity (CPA) as moderating factors in the relationship between CSiR and the number of announced M&As.

M&As are one of the most important strategic choices that firms will make to access valuable resources and enter new markets (Deng and Yang, 2015). M&As—both domestic and cross-border—encounter numerous barriers, such as geographic and cultural distance, different institutional and legislative systems, and evolving stakeholder interests (Shimizu *et al.*, 2004). These factors point to social, legal, political, and environmental forces having a significant impact on the success or failure of M&As. Despite this, nonmarket factors within the M&A context have been scarcely researched in strategic management and international business (Ahammad, Tarba, Liu, Glaister and Cooper, 2016; Clougherty, 2003; 2005; Holburn and Vanden Bergh, 2014). It is only recently that scholars have begun to investigate CSR and CPA in this context, specifically exploring whether socially responsible investments create wealth for shareholders (Atkas, de Bodt, and Cousin, 2011; Chen and Gavious, 2015); the effect of CSR on bid premiums (Gomes, 2019); and the role of political connections in M&As (Croci, Pantzalis, Park and Petmezas, 2017). Yet despite this new turn in research, contributions have so far been limited to shareholder wealth, thus ignoring other important stakeholders.

Concentrating solely on economic factors that can influence the outcomes of investment strategies can lead to a rather narrow focus. Because M&A performance is a multidimensional construct, researchers must look beyond returns on shareholder value (Hawn, in press). Building on our research in the previous chapter, we extend instrumental stakeholder theory (IST) into the M&A domain. We aim to expand the debate to address the impact of both primary (e.g. shareholders, employees, suppliers) and secondary (e.g. governments, environment, media, local community) or 'nonmarket' stakeholders. We argue that M&A research now needs to focus on nonmarket factors and move from the shareholder dominant focus that has shaped its theoretical and empirical development. Social, cultural, and political factors contribute to the success or failure of firms' strategic action, and dismissing these factors as irrelevant could be a significant contributor to the high failure rate of M&As.

Accounting for nonmarket factors in the pre-announcement phase to create synergies between bidder and target firms that have similar practices can perhaps further facilitate the negotiation and integration phases. Although multiple factors determine the success rate of M&A

activity, strategic complementarity and cultural fit are key (Bauer and Matzler, 2014). Despite cultural fit being primarily associated with affecting cross-border transactions, issues with organizational culture can also affect domestic ones. For example, United-Continental Airlines merger announced in 2010 is well documented as being extremely problematic.[4] Described as a poorly executed merger, many conflicts ensued between the newly merged United Continental, its employees and other stakeholder groups. Among others, a toxic corporate culture, chaotic policies causing various employee contract disputes, and unstable and changing senior management teams. Strategic fit and potential synergies using a nonmarket approach could have identified issues at early stages of this merger. Yet most policies and practices were misaligned, severely damaging not just financial performance, but also reputation and stakeholder relations.[5]

In this chapter, we account for nonmarket factors that influence the core strategic decision-making processes of firms. More specifically, we focus on the influence of exposed firm CSiR behavior on M&A announcements (both domestic and cross-border), and the moderating effect of corporate reputation and CPA. We explore whether firms increase M&A announcements to signal to investors that the firm is financially secure despite potential negative outcomes of CSiR, such as costly lawsuits, fines, and reduced sales. We do so by considering M&A announcements worldwide and in a subset of developing countries. Moreover, we investigate if firms' corporate reputation and lobbying expenditures buffer or deepen the relationship between CSiR and M&A announcements. We expect that firms with a good corporate reputation announce a higher number of M&As when CSiR occurs. Meanwhile, we suggest that those firms that partake in lobbying will

[4] https://www.latimes.com/business/hiltzik/la-fi-hiltzik-toxic-united-wells-20170411-story.html (Last accessed April 29, 2020).
[5] https://www.forbes.com/sites/deniselyohn/2018/03/28/how-to-fix-united-airlines-culture-problem/#62d1f143fd3d (Last accessed April 29, 2020).

cut down the number of M&As under these circumstances. To the extent of our knowledge, this is the first study to address these issues.

We have tested the above hypotheses on a panel-data sample of firms listed in Standard & Poor's (S&P) 500 over an 11-year period (2007-2017) using a Generalized Estimating Equation (GEE) negative binomial specification. The key dependent variable is the number of M&A announcements, which we have built from *Thomson Financial SDC Mergers and Acquisitions* data. Like in the previous chapter, our main independent variable is CSiR in year *t*, created from our unique database of CSiR events. Our results suggest there is a partially significant negative relationship between firm involvement in CSiR and the increase in M&A announcements. This relationship turns nonsignificant in the case of M&As announced in developing countries. These results change when we consider the firms' CSiR record rather than their irresponsible behaviors in year t, as then evidence suggests that firms involved in CSiR increase their M&A announcements, probably with the aim of deflecting attention from its stakeholders. In addition, whereas our findings highlight that lobbying expenditures negatively moderate the relationship between CSiR and M&A announcements, they show that corporate reputation positively moderates this relationship. Our results support our argument that where CSiR occurs, firms will engage in a series of tactics aimed at avoiding retaliation from nonmarket stakeholders (Surroca *et al.*, 2013).

In this chapter we make three central contributions to the nonmarket, instrumental stakeholder theory, and M&A literatures. Firstly, we extend M&A literature into the nonmarket domain by exploring how CSiR and CPA impact on a firm's core strategic processes. We analyze the broader role that these nonmarket factors have on firm decision making and the growing importance of firms accounting for social and environmental factors in their investment decisions. We also add to the discussion by examining CSR and CSiR as two separate constructs, which allows for a deeper analysis of the factors that impact the outcomes of firm behavior. Secondly, we extend the instrumental stakeholder approach into the M&A domain. Prior literature has so far focused exclusively on primary stakeholders affecting the M&A process. By introducing nonmarket stakeholders in our analysis instead of focusing on shareholders, we are advancing the literature on the factors that may impact on the success or failure of M&As. Additionally, we introduce signaling theory as a complement to IST (Connelly, Certo, Ireland and Reutzel, 2011). We extend this theory into the nonmarket domain by analyzing how CSiR can distort the message that firms wish to convey regarding their strategic activity. Finally, we make our contribution to CPA and reputation literatures by analyzing how stakeholders react to firms using these concepts as risk management strategies where CSiR has occurred.

We structure the remainder of this chapter as follows. First, we conduct a literature review of prior M&A research and discuss the emerging nonmarket aspects in this literature. Next, we introduce our theoretical framework and develop our hypotheses before discussing our methodological approach, which includes a recap of the research setting and data collection process. We then introduce the variables, data sources, and econometric technique chosen to perform the empirical analysis. Afterwards, we present our key results and discuss them together with their practical implications, limitations, and future research directions.

4.2 Literature Review

Ghauri and Buckley (2003) define M&As as the process where two separate organizations form a single, new enterprise to pursue organizational goals of growth and expansion to new markets, both domestic and international. According to studies by Calipha, Tarba, and Brock, (2010) and Barkema and Vermeulen (1998), firms may choose from three categories of mergers; namely, *horizontal* (competing firms in same industry), *vertical* (firms with value chain links) and *conglomerate* (firms in unrelated industries). Described as being multidisciplinary in nature (Cartwright and Schoenberg, 2006), M&A research has attracted the interest of scholars from financial economics, strategic management and organizational behavior (Bauer and Matzler, 2014; Birkinshaw, Bresman and Hakanson, 2000). Each stream of research focuses on different factors affecting firm performance and the decisions and motivations behind corporate strategy. Yet predominantly scholars seek to understand how M&A action creates firm value.

Early research attempted to mark M&A activity concentrated on what has been described as 'Merger Waves' (Haleblian, Devers, McNamara, Carpenter and Davidson, 2009). Six major waves are identified indicating to a major uptake in M&A activity at specific points in time, coinciding with increased academic contributions. These merger waves reveal intense activity across industry and charts to some extent the changing business environment, particularly in North America (Harford, 2005; Lubatkin and Lane, 1996; Mitchell and Mulherin, 1996; Yaghoubi, Yaghoubi, Locke and Gibb, 2016). Starting in the late 1890s, associated with industrial production and heavily focused on monopolies, this follows on through pre- and post-World War eras when concentration was on manufacturing. A third wave is linked to popularity in business concerning conglomerates around the 1950s onwards (Lubatkin and Lane, 1996), continuing through three more waves ranging from hostile takeovers in the 1980s, leading on to the onset of globalization, characterized by an increase on cross border M&As. We acknowledge the significant contribution to the literature that charting this development of M&A activity entails, as industry and academia document technological, economic and regulatory changes in the global business environment (Harford, 2005; Mitchell and Mulhern, 1996). Nevertheless, this is not our focus, as our intent here is to highlight an almost one-sided approach to financial and shareholder wealth creating research that has characterized much of the literature, overlooking nonmarket elements.

M&A transactions take place over three distinct phases: due diligence, pre-negotiation, and post-integration (Angwin, 2001; Angwin *et al.*, 2015; Birkinshaw *et al.*, 2000). Each stage of this process requires detailed analysis of all factors affecting the successful outcome of the M&A. We note that significant focus on M&A research centers around the post-integration phase as researchers seek to discover if the assumed synergistic gains, often touted as motivations for mergers, are realized. Initial research contributed mainly to the finance literature and investigated the value adding ability of M&As, though empirical results are somewhat mixed. The assumption that the acquirer firm, as the instigator of these transactions, is the main beneficiary has not been definitively proven (Haleblian *et al.*, 2009). Lubatkin (1987) and Barney (1998) cited no significant improvement in shareholder returns for the acquiring firm, which Singh and Montgomery (1987) also echoed by stating that any financial gain in the early stages of M&As is felt by target firms. Fuller, Netter, and Stegemoller (2002) described acquirers as encountering negative stock gains, with any combined financial gains only benefitting the target firm, leaving questions surrounding the motivations of firms that actively engage in M&As. If, as research suggests, there is little financial gain, what other goals do M&As achieve?

As the number of mergers increased globally, research expanded to investigate potential synergies from these transactions that transcended accounting and market-based measures. Concepts such as strategic relatedness and compatibility (Capron and Hulland, 1999; Larsson and Finkelstein, 1999) as well as degree and speed of integration and cultural compatibility (Angwin, 2004; Brouthers, 2002) gained traction. Brouthers, *et al.* (1998) further categorized merger motives as economic, personal, and strategic. Each category produced a broad range of topics that scholars have pursued to better understand the aims and objectives of mergers. Meanwhile, King, Dalton, Daily, and Covin (2004) identified certain limitations in M&A empirical studies that heavily focused on deal characteristics concerning relatedness of merger firms (e.g. Capron and Hulland, 1999; Lubatkin, 1987); acquisition experience (e.g. Haleblian and Finkelstein, 1999; Hayward, 2002); and method of payment (e.g. Chang, 2002; Fuller *et al.*, 2002), thus limiting the scope of variables used to identify what drives firms to engage in M&As. Furthermore, King and colleagues pointed out that empirical studies so far have been insufficient in linking these variables to improved firm performance. Limitations of these studies seem to have an overemphasis on accounting and market-based measures and a disregard for other external factors that potentially affect the successful outcomes of M&As (Cartwright, Teerikangas, Rouzies and Wilson-Evered, 2012; Haleblian *et al.*, 2009). We highlight here the necessity of bridging multiple levels of analysis, particularly from the nonmarket domain to further develop the M&A literature.

Economic and strategic motives are the most prominent categories investigating M&As, as firms look for new opportunities to exploit to their advantage (Conklin, 2005). Firms will seek to increase market power (Ghauri and Buckley, 2003), asset redeployment (Anand and Singh, 1997) and access new resources and capabilities (Deng and Yang, 2015). Additionally, research has sought to understand how strategic fit (Bauer and Matzler, 2014), cultural compatibility (Brouthers, 2002; Chakrabarti, Gupta-Mukherjee and Jayaraman, 2009) and potential synergies (Chatterjee, 1986; Zaheer, Castañer and Souder, 2013) allow firms to add and build on their existing strengths and combat weaknesses (Gomes, Angwin, Weber and Tarba 2013). The expected outcomes of these firm investment decisions align with providing market entry opportunities to increase market power (Haleblian *et al.*, 2009); access critical resources, both human capital and natural (Uhlenbruck, Rodriguez, Doh, and Eden, 2006); and improve efficiency and cost reduction across operations and supply chains (Bauer and Matzler, 2014; Calipha *et al.*, 2010; Seth, Song, and Pettit, 2000).

Building on these motivations behind firm's external growth strategies we acknowledge the added complexity of pursuing cross-border M&As. Seen as an attractive foreign market entry mode, cross-border M&As have increased substantially in recent years (Brouthers, 2002; Kim and Aguilera, 2015; Kling, Ghobadian, Hitt, Weitzel and O'Regan, 2014). While there is no doubt that expansion, particularly from an international perspective, presents many benefits, it does come with its own set of challenges. Restructuring and transferring operations across countries that may be geographically and culturally distant (Erel, Liao and Weisbach, 2012) and encountering new political and economic conditions require firms to adjust rapidly to new working environments (Conklin, 2005). These differences are bound to create a 'liability of foreignness' (Hymer, 1976; Zaheer, 1995) and/or 'liability of outsidership' (Johanson and Vahlne, 2009) that increase the entry barriers firms need to overcome to increase their likelihood of success in host countries. Yet despite these challenges, M&A is a key external growth option, often critical to a firm's success (Bauer and Matzler, 2014; Cording *et al.*, 2014).

Again, we see here an opportunity to align nonmarket policies and practices as a way of reducing conflicts of interest, and confusion and uncertainty for stakeholders that mergers often cause (Arouri, Gomes and Pukthuanthong, 2019). Yet so far, research concerning the main drivers behind M&As has largely ignored potential synergies with nonmarket stakeholders, taking a shareholder-centric approach (Bettinazzi and Zollo, 2017). Though arguments still conceive CSR as wealth destroying for shareholders, in strategic management and international business research this seems to be changing (e.g. Ioannis and Serafeim, 2012; McWilliams and Siegel, 2011). As legal, political and cultural factors grow in importance to business decisions, engaging with both primary and secondary stakeholder groups could be instrumental in improving the M&A success rate.

Our focus on the announcement phase highlights how crucial nonmarket factors are in this process. M&As are subject to country, industry, and firm level factors (Shimizu *et al.*, 2004). In the earliest phase of a merger when acquirers perform a due diligence process (Angwin, 2001), careful consideration of nonmarket factors should be included. The pre-negotiation phase is generally where most decisions regarding mergers are made. Potential issues and creation of synergies will most likely be assessed at this stage. Firms will consider relatedness and complementarity factors to create potential synergies even if these two concepts are vastly different, which has caused confusion in previous research (Kim and Finkelstein, 2009). As evidenced by our earlier example of the United-Continental Airlines merger, complementary processes are not a guaranteed means of success, and other important factors need to be addressed.

Broad strategic objectives, search, and screening processes and financial evaluations are all conducted in the early negotiation phase. Nonetheless, M&A scholars are not accounting for social and environmental assessments that seem to be prevalent in industry, evidenced by the increase in CSR reporting by publicly listed firms (Marano, Tashman and Kostova, 2017). Other issues at the announcement phase concern communication and information, particularly in cross-border transactions (Angwin, 2015; Angwin, Mellahi, Gomes, and Peter 2016). Firms can encounter information asymmetry in the acquisition process, more so across national borders (Junni, Sarala, Tarba and Weber, 2015). Performing extensive, multi-level due diligence, that includes nonmarket factors can help reduce inherent information asymmetry in these transactions. This process will be easier in target firms that have enhanced CSR profiles, as they will be more open and transparent (Gomes and Marsat, 2018).

We see opportunities to introduce nonmarket factors as measures of analysis to expand research beyond shareholder returns. Strategic and cultural compatibility and the creation of synergies are difficult concepts to measure and accessing information detailing success and failures of mergers in terms of synergy is also complex. Previous empirical studies have relied on quantitative archival data, case studies and survey-based results, using small sample sizes (Cartwright *et al.*, 2012). Further to this, Bauer and Matzler (2014) highlighted that it takes three to five years to see successful results from mergers, adding to uncertainty and empirical issues in this research stream. Nonetheless, despite the apparent lack of nonmarket factors in the M&A literature, a growing number of scholars have recently begun to investigate the impact of CSR and political connections on M&As. In the subsection below we provide a review of these studies.

4.2.1 M&A literature in a nonmarket context

Attempts to address M&As in a nonmarket context is still relatively new and is more aligned with shareholder value. The small number of papers analyzing the relationship between CSR and a firms' external growth strategies are done from the perspective of adding or detracting from shareholder wealth. Additionally, very few papers are delving into political activity that firms engage in to influence the outcomes of M&As, particularly where regulatory approval is required (Holburn and Vanden Bergh, 2014). M&A motivations are varied, and beyond issues of growth, merger activity can be viewed as a response to threats external to the firm. Issues such as increased/decreased regulation, stakeholder activism and technological innovation/disruption all factor in strategic decisions (Deng, Kang, and Low, 2013; Levy and Egan, 2003). In the two previous chapters we have shown the importance of managing the business and society relationship and the relevance of forming alliances with stakeholders to improve overall performance. In a practical sense, firms may already account for these factors, as we see firms producing annual CSR reports detailing areas of involvement in social and environmental activities (Deng *et al.*, 2013), while legally declaring all political activities, specifically financial donations. It is imperative that

M&A literature reflects this and bridges this disconnect between industry and academia (Aktas *et al.*, 2011).

There is little doubt that the literature on M&As has advanced, as evidenced by the volume of academic papers, books and industry reports available. Yet they are not without limitations. The majority of research can be divided into four thematics (i.e. strategic, financial, organizational and process), with a focus on providing a return on the acquirer firms' investments (Bauer and Matzler, 2014; Cartwright *et al.*, 2006; Seth, Song, and Pettit, 2002). This shareholder focused intensity could well be a significant part of the high failure of M&As. The financial implications of integrating CSR into investment decisions are an increasingly important topic, and do not necessarily indicate financial loss (Porter and Kramer, 2006). Indeed, as the debate concerning shareholder expense verses stakeholder maximization continues, there is a shift in shareholder priorities whereby investors and analysts start perceiving the value enhancing benefits of strategic CSR (Luo, Wang, Raithel and Zheng, 2015).

Shareholders and investors now view CSR as a form of value creation rather than destruction. Institutional investors and stock analysts are pursuing socially responsible strategies to attract potential shareholders. Furthermore, investors are now under pressure to divest firms from irresponsible investments in controversial industries (Luo *et al.*, 2015; Ioannou and Serafeim, 2012). Atkas *et al.* (2011) were arguably the first to investigate CSR impacting on M&A activity, doing so under the guise of socially responsible investments (SRI). The authors discussed SRI in terms of value creation or value destruction for shareholder returns. Differentiating between the acquirer and target firm in their analysis, results supported the value creation perspective in terms of shareholder returns. Moreover, this study indicated that if a target firm is a high CSR performer, acquirer firms will receive higher returns for shareholders. They also reported a secondary benefit, showing that acquirer firms will improve their CSR performance by absorbing practices already in place in the target firm. This highlights potential synergies between both firms, lending support to the learning hypothesis, where firms adopt or adapt new processes during the acquisition phase (Junni *et al.*, 2015).

Heavily focused on the effect of CSR on shareholder wealth, the CSR research in the context of M&As so far discounts other important nonmarket stakeholders. Deng at al. (2013) followed this trend by investigating two opposing views in the CSR/performance debate: stakeholder maximization value and shareholder expense view. Similar to the slack resource's argument (Kang, Germann, and Grewal 2016), the authors questioned whether CSR activities improve financial performance or improved financial performance increases investment in CSR. Their empirical evidence supported a stakeholder maximization view, suggesting that integrating CSR and stakeholder relations into strategic decisions like mergers has its merits and ultimately creates shareholder value. Additionally, this paper supported that accounting for CSR measures can improve aspects of post-merger integration.

For the most part, M&A scholars have regarded CSR as a shareholder expense. However, a small stream of research is beginning to recognize the wider benefits that stakeholder engagement can bring to the M&A process. Gomes and Marsat (2018) did this by investigating how acquiring firms can use CSR to reduce risk and increase transparency, aiming to increase bid premiums. This paper began to delve into other intangible benefits that CSR brings, such as improved reputation that helps to build goodwill and develops a form of reputational insurance. This is particularly relevant where CSiR has occurred, as firms will aim to use these reputational gains to avoid closer scrutiny of their actions (Godfrey *et al.*, 2009; Luo *et al.*, 2018; Muller and Kräussl, 2011). Using

CSR to create synergies, break down cultural barriers and reduce conflict may allow for smoother integration between firms.

Increased engagement in responsible initiatives is creating more attractive investment opportunities (Gomes, 2019), which suggests that firms assess the suitability of acquiring high and low CSR performing firms in terms of specific risks or potential synergies. We note that firms that produce CSR annual reports are more transparent, with readily available information for acquiring firms (Kölbel and Busch, 2019). This can be even more relevant in cross-border M&A activity since reliable information is more difficult to obtain. Information concerning a firm's past social performance in areas ranging from working conditions, supply chain activity and local community interaction can contribute to the valuation of proposed M&A deals. The more information acquirer firms have on nonmarket factors affecting target firms, the better the outcome of the proposed merger (Gomes and Marsat, 2018).

Additionally, firms with little to no CSR activity can face difficulties, as implementing or adopting new processes can be costly and requires significant investment (Arouri *et al.*, 2019). Moreover, certain stakeholders may potentially object to M&As, particularly where CSiR has occurred. Poor reputational issues and spillover effects from prior bad behavior could inevitably impact the success of the M&A. Arouri and colleagues (2019) are the first paper to explore this through an M&A context, using a high-low CSR matrix to empirically assess how CSR may reduce uncertainty in the M&A process. Chen and Gavious (2015) however provide a different view, analyzing the relationship between CSR and M&A valuation, finding no evidence that CSR either improves investors' profit or increases the valuation of M&A activity for the acquiring firm, again only accounting for shareholders.

As an international expansion strategy, M&As are considered one of the most important options that firms have in terms of managing environmental uncertainty (Hillman, Withers, and Collins 2009; Deng and Yang, 2015). Broadly speaking, economic systems, political and social institutions, and geographic environment characteristics will factor into merger decisions. Yet these factors in M&A research seem to have developed separately from a nonmarket perspective. As we question motivations behind M&As, particularly cross-border mergers, we note the lack of research relating to firm political activities despite the regulatory issues that they may encounter throughout the process. An extensive review conducted by Xie, Reddy and Liang (2017) investigated the rise in interest of cross-border transactions, and noted that motivations are not dissimilar to domestic M&As. This may be a reason why research on cross-border and domestic M&As have relied on nonmarket issues equally.

M&A location choice should reflect the market and nonmarket strategies firms pursue, yet research is limited on integrating these concepts in this context (Ahammad *et al.*, 2017). Firms that expand globally will do so to increase market power, reduce costs, and gain access to new resources and capabilities (Deng and Yang, 2015). Yet doing so exposes firms to different institutional and regulatory frameworks, political systems, and cultural barriers that increases risk surrounding M&A activity. Firms that face political pressure will look to offer incentives for politicians to either approve or block potential mergers, with potentially lucrative corporate board positions and financial donations. Studies have shown that these investments are linked to increased firm value and are a necessary aspect of a firm's corporate strategy (Faccio, 2006; Faccio, Masulis and McConnell, 2006). And, unlike investment in strategic CSR, there seems to be no negative association between the cost of political activities and financial performance (Adelino and Dinc, 2014).

In the context of mergers, firms engage with their political environment for a number of reasons. Opposition to both domestic and cross-border M&As can occur if these actions result in potential job losses to local communities. Also, if firms look to expand overseas to locations with lax regulatory environments to take advantage of cheap labor, they can encounter resistance, either on one specific merger or other future deals (Croci, *et al.*, 2017). Other areas that have sparked interest of political activity concerns antitrust issues (Clougherty, 2003, 2005), and mergers in heavily regulated industries (Holburn and Zelner, 2010).

Xie and colleagues (2017) raise an important question on merger motives that is particularly relevant to this research. Are firms more inclined to select target firms based on locations with institutional voids, and would firms with a history of CSiR consider these location choices due to weak institutional frameworks and political uncertainty? Our research aims to address such limitations in M&A literature, as we consider the impact of CSiR and the level of M&A activity by firms. We also investigate the role that corporate reputation plays in these growth strategies and how lobbying expenditures further impact the relationship between CSiR and the number of M&As announced by the firms. As we move into discussing the theoretical stance and our hypotheses development, the above topics will be further expanded in the following section.

4.3 Theory and Hypotheses Development

Scholars studying the outcomes of M&A activity have mostly applied transactions cost economics (Brouthers and Brouthers, 2003), resource dependence theory (Bauer *et al.*, 2017; Hillman *et al.*, 2009), and agency theory (Haleblian *et al.*, 2009) as their theoretical frameworks. As previously mentioned in the literature review, a majority of M&A research has prioritized increasing shareholder wealth and firm financial performance as driving forces behind this research. It is our understanding this has resulted in providing a rather one-sided account, ignoring other influencing factors. We note the absence of important nonmarket stakeholders further adds to the limitations on providing reasons behind the high failure of M&As. However, recent studies have expanded their scope to incorporate CSR and other stakeholder groups, as evidenced by a recent contribution from Bettinazzi and Zollo (2017). While the addition of stakeholder orientation to the M&A literature is a timely contribution, this focuses on primary stakeholders, overlooking the impact of secondary stakeholders on strategic decisions.

We seek to build on this research and contribute to the M&A literature by challenging the 'implicit assumption' that other stakeholder groups involved in the M&A process are accounted for in research (Bettinazzi and Zollo, 2017). To contribute to the advancement of nonmarket research we will investigate the influence of nonmarket stakeholders on the number of announced M&As. In keeping with an instrumental stakeholder approach, we also introduce signaling theory as a complement to our theoretical framework so that we might better understand why firms engage in external growth strategies even in the face serious financial and non-financial risk.

Signaling theory is primarily linked to the reduction of information asymmetry between the various parties involved in specific business activities (Connelly, *et al.*, 2011). Originally rooted in economics and finance literature (Ross, 1973; Spence, 1973, 2002), signaling theory sets out to distinguish between high- and low-quality firms, in terms of their ability to signal positive and negative information about firm behavior. Making a distinction between the *signaler* (high-quality firm) and the *receiver* (low-quality firm or stakeholder), the theory seeks to determine the dominant firm's ability to signal relevant information regarding firm actions and the cost of doing so. Moreover, signaling theory draws attention to how stakeholders may react to specific information regarding firm behavior and how these signals inform stakeholder perception (Carberry *et al.*, 2018).

Over time, this theory integrated into other concepts to complement various management frameworks, specifically favored by strategic management scholars (Connelly *et al.*, 2011; Bergh, Connelly, Ketchen and Shannon, 2014). Used as a means of directing attention, either towards or away from specific issues, signaling theory can reduce uncertainty in situations where certain actors have incomplete information. This can be done through a variety of means, such as the media (Deephouse, 2000, Weigelt and Camerer, 1988) and CSR (Janney and Gove, 2011; Kölbel and Busch, 2019). Bergh *et al.* (2014) highlight that stakeholders will look for 'signals' that translate into actions or policies set out by firms regarding their intention to act on their stated objectives.

The stakeholder-firm performance question is built on information asymmetries between all parties involved. Firms have specific information about their actions and strategic intent that they may or may not want to inform certain parties about. Whether and how firms choose to disseminate this information to its various stakeholders could in certain cases damage stakeholder relations (Carberry *et al.*, 2018). We highlighted this inconsistency between firms and their stakeholders in the previous chapter, suggesting that firms will mislead their stakeholders, or rely on the fact that they have limited attention. Firms could be hopeful that certain stakeholder groups stay unaware of specific firm behavior, actively working towards ensuring that information asymmetry is not reduced (Barnett, 2014). The significance of this limited stakeholder attention to certain firm activity affects how stakeholders sanction firms, ultimately determining if they face consequences or not.

Firms can use this to their advantage by signaling to stakeholders their good intentions through specific CSR policies (Crilly, Zollo and Hansen, 2012). Nonetheless, we question this logic, as there are often discrepancies between the promised actions of the firm and the actual outcomes of these polices (Crilly, *et al.*, 2016). This is highly relevant where firms have a record of CSiR activity. If a firm has a high CSR profile, this signals organizational legitimacy (Chiu and Sharfman, 2011). Yet this message gets confused, perhaps even delegitimized, when firms are involved in CSiR. In this respect, a high CSR profile will signal successful non-financial performance outcomes to investors, but CSiR further erodes the trust built with other stakeholders involved. Using this point we believe that signaling theory will add to our theoretical framework.

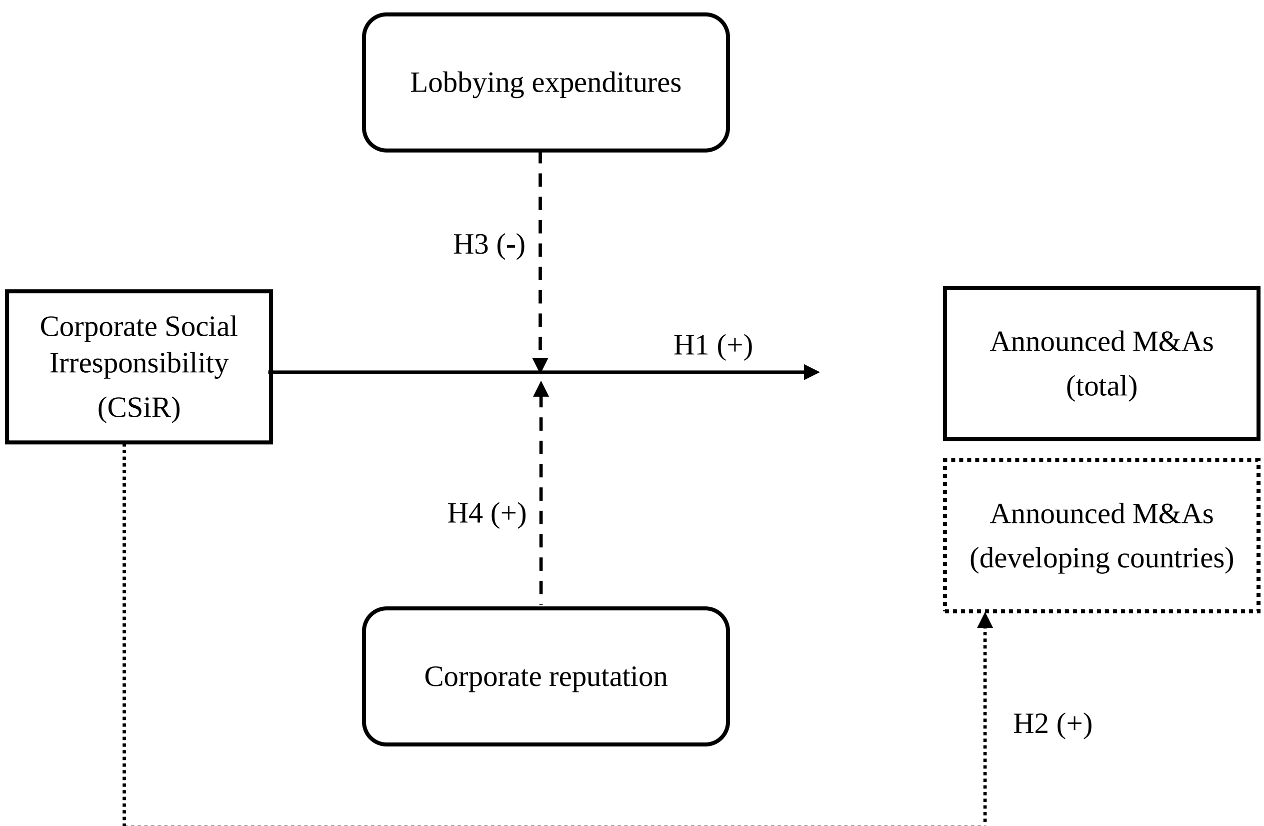
Signaling theory has been introduced into entry mode literature in several contexts. Used as a means to reduce adverse selection, Reuer and Ragozzino (2012) used this theory to promote M&As suitability over joint ventures. Other studies have investigated the merits of knowledge sharing and human capital (Coff, 2002); stock market reaction (Zhang and Wiersema (2009); and acquisition premiums (Reuer, Tong, and Wu 2012). As our focus concerns M&A announcements, we seek to understand how acquirer firms signal their intentions in this crucial early stage. Successful integration is essential to M&A success and the firm's ability to create value, though it seems that disregarding a nonmarket approach in the pre-negotiation phase can ensure failure in later post-merger phases (Cording *et al.*, 2014).

We argue that previous research overlooking stakeholder maximization in favor of a shareholder expense approach has contributed to this. By applying IST early in the pre-announcement phase, investigating potential synergies with high CSR performing firms signals not only to investors, but to all stakeholders in the bidder and target firm, that the acquirer has identified areas of concern that could potentially cause problems in future phases. Cultural barriers, specifically in cross-border mergers can be an issue for the acquiring firm, and therefore aligning CSR policies and practices is one way to create trust in the M&A process.

However, fully integrating an IST approach comes at a cost (Bridoux and Stoelhorst, 2014), which may discourage firms against such actions. Balancing stakeholder interests, assessing, weighing, and addressing conflicting demands (Reynolds, Schultz and Hekman, 2006) might be viewed as increased risk to M&A activity. Arguments put forward concern the over allocation of economic and managerial resources, redirecting value away from shareholders. However, the positive outcomes of stakeholder engagement within the context of M&A corporate strategy, outside of shareholders, has been scarcely addressed.

Figure 4.1. summarizes our proposed hypotheses, which we have developed to investigate how firms' involvement in CSiR impacts their corporate investment decisions and how corporate reputation and CPA moderate this relationship.

Figure 4.1. Summary of the hypothesized relationships.



4.3.1 CSiR and M&A announcements

Firms engaging in M&As may do so for a variety of reasons, such as asset-seeking, increased market power, and financial diversification (Capron and Guillen, 2009). In the previous section we questioned how these M&A motivations are mainly centered around financial reasoning, highlighting how this one-sided approach can contribute to their high failure rate. While we agree that synergistic opportunities through financial, operational, strategic, and cultural cooperation are all legitimate factors for firm growth, we suggest that other factors may motivate firms to engage in this type of strategic action. Specifically, we propose that firms may use M&A announcements as a means of deflection or distraction after CSiR incidents have occurred.

M&As have been described as a mechanism for firm survival where firms will seek new opportunities in times of uncertainty (Capron and Guillen, 2009). Involvement in CSiR is one mechanism that can be a major source of firm disruption, pushing firms to find innovative solutions that signal to investors and other stakeholders their ability to overcome these incidents. Based on signaling theory (Spence, 1973), we suggest that firms will continue to pursue M&As where serious CSiR has occurred to distract attention from prior bad behavior.

The assumption of signaling theory is that information is not dispersed equally between all parties involved in specific transactions (Spence, 2002). Previous research suggests decision makers send signals that relay information concerning firm actions (e.g. investment decisions) to receivers (e.g. target firms, investors), who use this information to determine the viability of the proposed transaction (Reuer *et al.*, 2012). The value of this information differs between the acquirer and target firms, as due to information asymmetry one party will have superior knowledge over the other (Tao, Liu, Gao, and Xia 2017). We apply this rationale to firm involvement in CSiR, whereby the acquirer firm may withhold important information concerning past actions, or simply use the M&A as a way to signal to stakeholders that it has come out of the CSiR event relatively unscathed.

Consequently, we follow a similar logic to the research conducted by Haleblian, Pfarrer, and Kiley, (2017), whose results empirically supported that firms with high reputations will on average have a higher rate of M&As to maintain investors' high expectations of growth and value creation. Nonetheless, this may be viewed as artificially boosting reputation by pursuing strategic actions that could harm the firm at a later date. As firms engage in mergers to maintain reputation, the long-term success rate of this strategy remains uncertain. While boosting reputation and distraction strategies may have some short-term performance benefits, the resulting fallout from abandoning M&As could have serious repercussions, such as significant legal fees and a considerable waste of resources (Zhou, Xie and Wang, 2016).

Significant empirical research has shown that firms receive a short-term boost in share price during the announcement phase of an M&A, usually by analyzing 5-day cumulative abnormal returns (Asquith, 1983; Cho and Ahn, 2017; Faccio, *et al.*, 2006; Masulis *et al.*, 2007; Mitchell and Stafford, 2000). Positive investor reaction is based on their perception of the firm's ability to secure future cash flow (Groening and Kanuri, 2013). But these presumed short-term financial gains that send a positive signal that imbue investor confidence in firm actions may be misleading. In the event of CSiR, the signal of confidence can be misconstrued by both investors and nonmarket stakeholders, thus reducing the strength of the signal that firms intend to send. CSiR consequently distorts the signal that firms seek to convey, which ultimately destroys trust and damages stakeholder relations (Connelly *et al.,* 2011). We argue that firms may use M&A announcements to distract stakeholders from CSiR by sending potentially misleading signals to stakeholders about the repercussions of the irresponsible behavior for the firm and the impact that it has had on its ability to grow. Therefore, we hypothesize that:

Hypothesis 1: Corporate social irresponsibility is positively associated with the total number of M&A announcements.

4.3.2 CSiR and M&A announcements in developing countries

Cross-border M&As are a popular form of international expansion as firms seek new ways to improve performance in an increasingly competitive business environment (Erel *et al.*, 2012; Zhu, Ma, Sauerwald and Peng, 2019). However, the value that firms gain from these transactions is unclear, particularly in developing countries that may have high entry barriers that hamper the process (Li, Li and Wang, 2016; Lebedev, Peng, Xie and Stevens, 2015; Shimizu *et al.*, 2004). Although we acknowledge there are alternative entry modes into foreign countries like joint ventures and greenfield ventures, our focus remains on M&As as a tool of foreign expansion (Buckley, Yu, Liu, Munjal, and Tao 2016; Deng and Yang, 2015; Dikova and Brouthers, 2016; Shimizu *et al.*, 2004).

We argue that firms' involvement in CSiR—either intentional or accidental—exposes them to serious repercussions, legal challenges and loss of investor confidence (Koh, Qian and Wang, 2014; Lin-Hi and Blumberg, 2012; Lin-Hi and Müller, 2013; Price and Sun, 2017). As a result, they may look for alternative solutions to avoid this reoccurring and investing in developing countries with weaker institutional frameworks could be one of them. In an era of intense globalization, the ability of firms to move across geographic markets may seem a simple choice, yet this is fraught with issues. Along with different economic and cultural differences, firms will encounter different institutional constraints in new locations. To better understand the motives for firms to relocate to developing countries, we apply an institution-based view to assess how different institutional frameworks affect firm operations (Peng, 2002, 2003; Peng, Sun, Pinkham and Chen, 2009).

Institutions make up *formal (*regulations, laws, property rights, economic and political markets) and *informal* (norms, culture and ethics) rules that structure the political, economic and social environments where firms operate (North, 1990). Firms may see developing economies as a route for short-term means of value creation where environmental uncertainty is high (Peng, 2003). We use cross-border M&As to determine if firms seek opportunities to deploy assets, practices and resources to locations where weaker institutional framework may provide less scrutiny of firm behavior (Anand and Singh, 1997; Capron and Guillen, 2009; Surroca *et al.*, 2013).

In times of environmental uncertainty firms will by necessity adjust their strategic format and look at alternative sources to divert threats to operating practices (Cantwell, Dunning, and Lundan, 2010). Yet, while significant research covers financial performance as motivations, there is a relative lack of research on cross-border M&As as an 'escape response' to pressures in the home location of firms (Oliver, 1991; Surroca *et al.*, 2013; Witt and Lewin, 2007). We anticipate that firms will increase its announcements of M&As in developing countries as an avoidance tactic where firms are facing serious consequences due to CSiR. Developed economy firms are increasingly engaging in cross-border M&As located in developing economies (Graham, Martey and Yawson, 2008). Firms will enter a new location to access facilities, low cost labor, and supply chains already established by the target firm. This ensures that firms circumvent many access issues, helping firms reduce costs and gain easier access to resources (Jackson and Deeg, 2008).

Moving into developing economies is viewed as a major opportunity to exploit new markets (Chakrabarti *et al.*, 2009). In this case, firms can either 'go local' by adopting host country conditions, rules and customs; or implement their own structures and operations, leveraging their own significant resources to pressure host country firms to adapt (Peng, 2003). Nonetheless, firms looking to invest in developing economies to avoid scrutiny will be met with suspicion as these locations are open to exploitation (Xie *et al.*, 2017). We highlight this as an important factor in this thesis as we seek to understand how CSiR is a deciding factor for firm's external growth strategies. Firms may look to increase their presence in developing countries to escape perceived restrictive legislation and regulation (Lewin and Witt, 2007), tax avoidance (Gul, Khedmati and Shams, in press), or access to cheap labor (Chen *et al.*, 2019).

Following from the above arguments, we expect that firms involved in CSiR increase the number of M&As that they announce in developing countries, whose institutions may be more indulgent than those of developed countries, and thus suggest that:

Hypothesis 2: Corporate social irresponsibility is positively associated with the number of M&A announcements in developing countries.

4.3.3 The moderating effect of corporate political activity

Having established that firms have several motives for engaging in M&A activity, such as the escape response previously discussed, we now seek to understand how a firm's political strategies moderates the relationship between CSiR and the number of announced M&As. It is a well-established fact that firms participate in corporate political activities (CPA) with the goal of influencing government policies in their favor (Aggarwal *et al.*, 2012; Baron, 1995; Faccio, 2006; Hillman and Hitt, 1999; Lawton, McGuire, Rajwani 2013; Schuler, Rehbein and Cramer, 2002).

Investments like M&As make up one of the most crucial strategic choices that firms can make due to the considerable amount of resources that they entail (Brockman *et al.*, 2013). Firms embarking on M&As will need to account for the costs and risks involved and ensure that the appropriate level of support from all stakeholder groups is provided. Combining the resources of two firms is a complicated process, and in many cases appropriate regulatory approval is needed (Clougherty, 2005; Holburn and Vanden Bergh, 2014). Yet the political process involved in these corporate transactions has scarcely been researched. This is an important aspect for both domestic and cross-border M&As since regulatory bodies in both the home and host location can delay or object the proposed M&A. Government interference, where legislators highlight areas of concern to their own constituents during M&A announcements are a threat to the successful outcome of M&A activity. Potential job losses, scaling back assets, and corporate restructuring are areas of concern that encourage firms to partake in political activity to preempt potential backlash from politicians (Capron, 1999; Croci *et al.*, 2017). These issues ensure that firms engage with the appropriate legislators and politicians to find a suitable solution for all stakeholders involved. However, firms seeking to sway government policies in their favor at the expense of important nonmarket stakeholders will generally attract negative attention (Croci *et al.*, 2013).

We would anticipate a negative reaction to this process when firms seek to invest in developing countries as an escape mechanism due to CSiR, Research shows both positive and negative outcomes where firms use lobbying strategies. There is extensive literature detailing the dark side connected to it (Hadani and Schuler, 2013; Werner, 2017). Nonetheless, it can also benefit companies. For instance, Ridge, Ingram and Hill (2017) provide examples of firms in heavily regulated sectors such as aerospace and defense, which engage in extensive lobbying to obtain government contracts and corporate tax breaks in return.

We argue that firm lobbying activities will negatively affect the relationship between M&As and the number of announced M&As. Lobbying benefits shareholders and the government agencies who receive the financial contribution, and in most cases stakeholders outside of this primary group will see little or no benefit (Werner, 2017). Where CSiR has occurred, stakeholder groups who may already have suffered consequences due to the firm's irresponsible behavior can introduce measures to disrupt potential M&As. Excessive lobbying donations can further enhance the negative response from nonmarket stakeholders given the "dark" connotations often associated to them. Where firms need cooperation from all stakeholders for M&As to succeed, lobbying activities can further alienate important groups (Waddock and Graves, 2006).

Where CSiR has occurred, firms may be tempted to increase the number of political donations as an insurance mechanism to avoid potential restrictions of proposed M&As. However, this greatly depends on the strength of the formal and informal institutions in place in the home and host country where the proposed M&A takes place. While political donations in the United States is an accepted and legal practice (Hadani and Schuler, 2013), it may be viewed as bribery in other locations (Keig, Brouthers and Marshall, 2015). Either way, lobbying activity can create a negative reaction from stakeholders and signal to investors that the firm is unable to adequately respond to issues relating to firm performance by itself. For this reason, we propose the following hypothesis:

Hypothesis 3: Lobbying expenditure negatively moderates the relationship between corporate social irresponsibility and M&A announcements

4.3.4 The moderating effect of corporate reputation

Besides CPA, in this chapter we also seek to understand whether and how corporate reputation affects the relationship between CSiR and M&A announcements. Although scholars have often recognized the asset-like qualities of firm reputation, it can also prove to be a liability

(Love and Kraatz, 2009). Reputation is increasingly referred to as a strategic resource which firms invest in to protect and enhance (Barney, 1991; Roberts and Dowling, 2002; Love and Kraatz, 2009), as it provides them with the ability to charge premium prices, access scarce resources, enhance performance, and increase employee retention, customer satisfaction and brand loyalty (Chun, 2005; Barnett, Jermier and Lafferty, 2006; Fombrun, Gardberg and Barnett, 2000; Lange, Lee and Dai, 2011). Firms engage in specific behavior to essentially build reputational capital, which can protect them against future bad behavior (Brammer and Pavelin, 2005; Godfrey, 2005; Wang and Qian, 2011). Recent research has begun to explore how firms use reputation to avoid scrutiny and deflect attention from actions that may be perceived as harmful to stakeholders (Muller and Kräussl, 2011). Nevertheless, firm reputation is fragile, subject to change and can be easily tarnished through irresponsible firm actions (Fombrun *et al.*, 2000).

Reputation is built on firm past actions that affect their stakeholder groups (Fombrun and Shanley, 1990). The perception of key stakeholders is then used to measure the success of a firm's reputation, based on how well it responds to the demands and expectations of key stakeholder groups (Lange *et al.*, 2011; Morsing and Schultz, 2006; Wartick, 2002). Stakeholder perception is therefore a key mechanism to maintaining a high-profile reputation, ensuring the necessity of firms to take an instrumental approach to its stakeholder relations. CSR is one mechanism that firms use to signal to stakeholders their good intentions by investing in resources that demonstrates a firm's commitment and builds goodwill (Brammer and Pavelin, 2005; Campbell *et al.*, 2012). However, the core of an IST approach to stakeholder relations is building trust to form these relationships. Therefore, engaging in CSiR actions sends mixed signals to stakeholders as these actions are viewed as a break in trust.

Based on signaling theory, firms will 'signal' their good intentions through CSR actions and will build long-term stakeholder relations, thus enhancing their reputation (Goyal, 2006). Additionally, socially responsible firms can attract investors and reduce information asymmetry between them and their stakeholders. Viewed as more transparent with their actions, continued engagement with stakeholders' further signals a firm's intentions of future compliance and legitimacy (Miller, Eden, and Li, 2018).

Depending on the actions that firms take to build their reputation, stakeholder perception can impact on its success or failure (Riordan, Gatewood, and Bill, 1997). Firms with a high CSR reputation may find themselves incurring more severe consequences when involved in irresponsible behaviors (Maon, Vanhamme, De Roeck, Lindgreen and Swaen, 2019). We argue here that high reputation as a measure of success can be misleading for stakeholders. Reputation is closely linked to firm performance. As such, if firms are viewed as financially successful, this is often misconstrued as a performance measure equating reputation with innovation, ethical practices and social and environmental responsibility (Brown and Perry, 1994; Love and Kraatz, 2009; Pfeffer, 2016). Consequently, when CSiR occurs this sends conflicting signals to nonmarket stakeholders, as equating financial success often overlooks other important mechanisms affecting corporate performance.

Empirical measures of good reputation such as Fortune's *Worlds Most Admired Companies* (WMAC) survey is evidence of this. The survey, based on financial success is completed by industry peers that are seen as prioritizing financial outcomes ahead of other important indicators (Chun, 2005). This can distort the results as the survey may seem biased and raises expectations of better behavior than the firm is willing to provide, as financial success is used to overcompensate for prior bad behavior (Pfeffer, 2016). Luo *et al.* (2018) stated the danger of relying on firm reputation as a barometer of good performance. Firms may buy moral capital through enhanced CSP programs to build reputation, deflecting attention from bad behavior. Firms' announcements of their 'good deeds' to overshadow news surrounding firm bad behavior gives merit to the 'give more, spill more' concept. They would therefore rely on information asymmetry across different nonmarket stakeholders who may be unaware of prior CSiR actions.

In strategy and IB literature the concept of reputational capital has produced interesting results, we look to extend this by investigating this concept further, analyzing its usefulness after CSiR occurs (Godfrey, 2005). We see how firms have used the nonmarket environment to their advantage through lobbying and responsible initiatives to build up reputational capital with stakeholders (Rodriguez, Siegel, Hillman and Eden, 2006). Significant literature has studied the effects of these nonmarket factors on financial performance (Barnett and Salomon, 2006; Brammer and Millington, 2008), access to finance (Cheng, Ioannou and Serafeim, 2014), and shareholder reactions (Flammer, 2013). However, we now see scholars begin to address the role that non-financial performance plays in a nonmarket context. Brammer and Pavelin (2005) stated that increasing corporate social investment will act as a form of moral capital and can prevent stakeholder retaliation where CSiR has occurred. Meanwhile, Godfrey *et al.* (2009) described the benefits of CSR activities to buy goodwill with stakeholders as insurance against negative events. Though this work did not prove that CSR increases firm value, the authors discussed that reputational capital would preserve firm value in times of crisis. Using CSR and firm reputation to reduce risk also works towards preserving shareholder wealth.

Nevertheless, there is a downside to using reputation as insurance. As we highlighted in the previous chapter, CSR literature tends to be categorized as 'firms doing well by doing good', yet this may not always be the case. Using corporate philanthropy by firms to highlight this example, Luo *et al*. (2018) provided empirical support of firms engaging in strategic action that is reputation enhancing, while simultaneously being involved in CSiR. Using the oil industry as an example, this research shows that firms will purposely invest in CSR to build a form of insurance for future CSiR events. However, questions remain surrounding the cost and benefits of this strategy. While this may be necessary for 'sinful industries' (Cai, Jo, and Pan, 2012), there is a limit on how long firms may use this strategy. Shiu and Yang (2017) provided empirical results showing how reputational capital begins to lose value as the number of CSiR that the firm is involved in increase. Though investment in this type of strategic action may protect shareholder wealth through long-term CSR engagement, relationships with other nonmarket stakeholders could be damaged. These tactics could be viewed as diverting resources away from other necessary causes, leading to potential retaliation. Indeed, firms may feel complacent with this form of reputational insurance and could cut back measures that are in place to protect nonmarket stakeholders.

In the early pre-negotiation phase where investigations are carried out to assess the suitability of each transaction, different stakeholder groups outline their objectives to each stated merger (Parvinen and Tikkanen, 2007). Performance improvement, value creation, and increased competitiveness are generally the most commonly associated goals behind these corporate actions. However, if firms were to use M&As announcements as a distraction from previous behavior, this would endanger the more traditional objectives being met, threatening successful M&A outcomes. But using corporate reputation as an insurance mechanism could convince targets to partake in the M&A as well as signal to investors the firm's ability to adapt to crisis situations, earning approval from shareholders, thereby increasing investment. Consequently, we expect that:

Hypothesis 4: Corporate reputation positively moderates the relationship between corporate social irresponsibility and M&A announcements.

4.4 Methodology

In this chapter we examine the impact of CSiR on the number of announced M&As as well as the moderating effects of lobbying expenditures and corporate reputation. To do so, we use a sample of S&P 500 firms over a period of 11 years (2007 to 2017).[6] In the following subsections we elaborate on the variables, data sources, and econometric technique chosen to perform the empirical analysis.

4.4.1 Variables

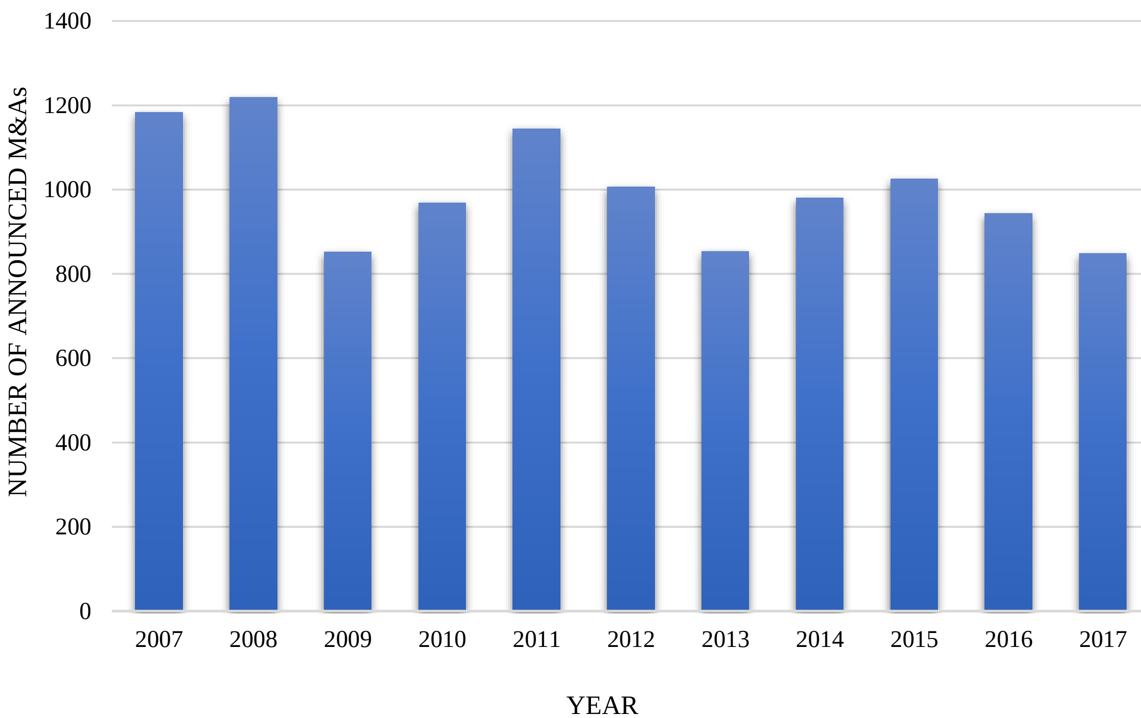
4.4.1 Dependent variable

The key dependent variable is the number of announced M&As. We have gathered the data to build this variable from the *Thomson Financial SDC Mergers and Acquisitions* database. Prior research on M&As has used this database to investigate both domestic and cross-border transactions (e.g. Dikova, Sahib and van Witteloostuijn, 2009; Faccio and Masulis, 2005; Zhou, Xie and Wang, 2016), some even within the nonmarket context (e.g. Atkas *et al.*, 2011; Croci *et al.*, 2017).

We collected a sample of M&As announced between January 1, 2007 and December 31, 2017 in which the bidder was a firm indexed in the S&P 500. This search we produced a sample of 11,024 M&A deals. Figure 4.2. shows the yearly distribution of said deals. Although there is a slight decrease in the number of announced M&As after the 2008 financial crisis, the numbers are quite constant across the years considered in the study.

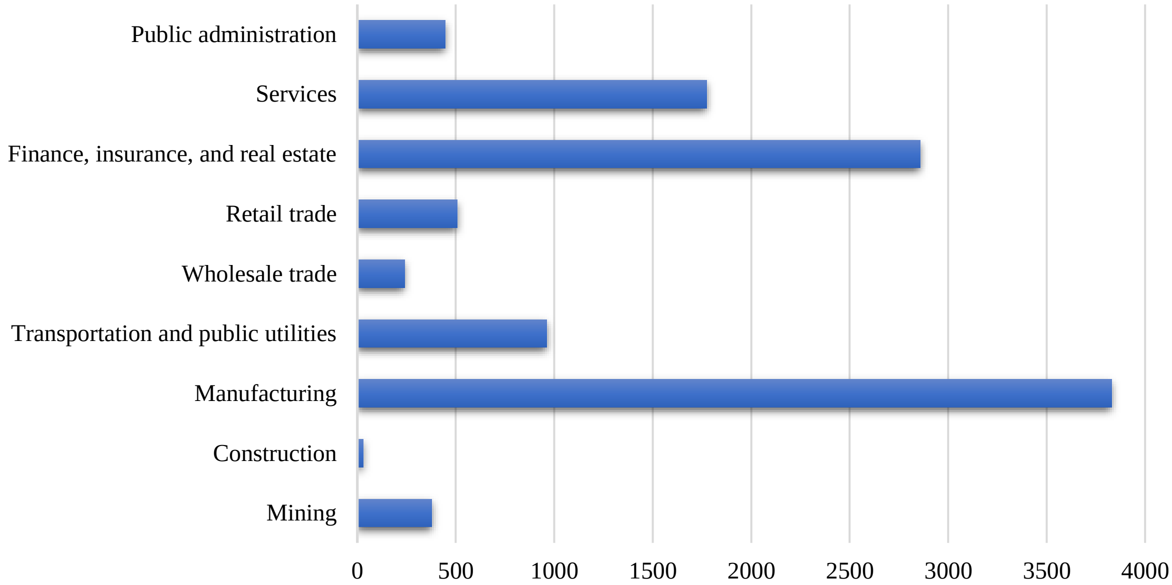
[6] We use the same sample to perform our analysis in Chapters 3 and 4. We have thus refrained from providing a description of the sample in this subsection to avoid redundancies. For a more detailed explanation, please refer to the *Methodology* section included in Chapter 3 (pp. 117-130).

Figure 4.2. Number of announced M&As by year.



Variations in the number of announced M&A deals are more evident across industries. As Figure 4.3. illustrates, most of them belong to the 1) manufacturing and 2) finance, insurance and real estate industries, with over 3,800 and 2,800 announced M&As, respectively. The numbers in the latter may have been driven by the consolidation efforts of financial services firms that took place during the 2008 financial crisis. At the other extreme, we find firms in construction and wholesale trade, which have announced less than 250 M&As deals during the period of our study.

Figure 4.3. Number of announced M&As by industry.



We created a second dependent variable from the information on announced M&As to test our second hypothesis, which suggests a positive relationship between CSiR and the number of announced M&A deals in developing countries. We therefore specify this second dependent variable as the count of M&A deals that the bidder (one of the S&P 500 firms included in our sample) has announced with a target located in a developing country.[7] We used data from the United Nations Conference on Trade and Development (UNCTAD)[8] and the International Monetary Fund (IMF)[9] to discern which countries are 'developing' (as opposed to 'developed'). We only included in this category those countries listed by both organizations as being less developed. Table 4.1. provides a list of countries included in each category.

[7] We gathered the data on the location of the announced M&A deal from the *Thomson Financial SDC Mergers and Acquisitions* database.
[8] Data retrieved from: https://unctadstat.unctad.org/en/classifications.html#:~:text=Development%20status%20groups,Trade%20and%20Development%20in%201964. (Last accessed July 30, 2020).
[9] Data retrieved from: https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/groups.htm (Last accessed July 30, 2020).

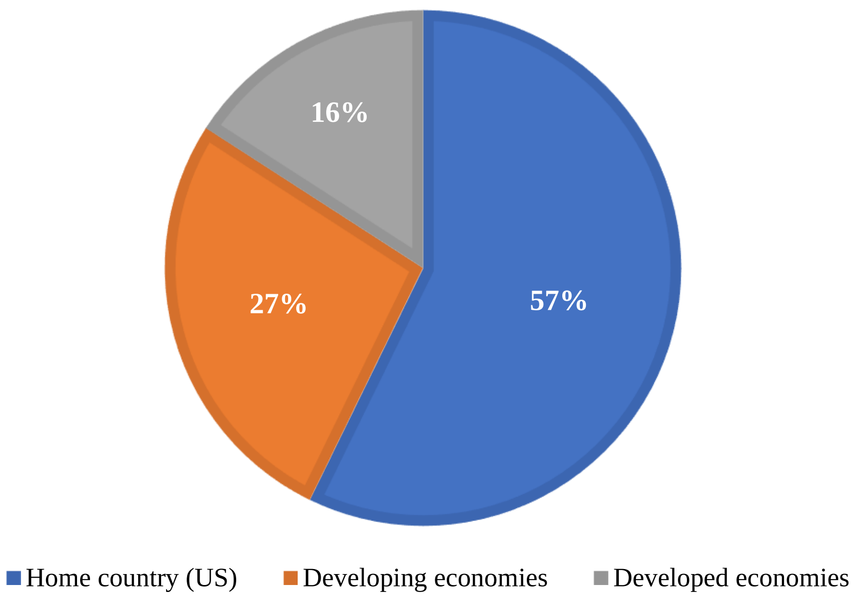
Table 4.1. Classification of countries according to their level of development.[10]

DEVELOPING				DEVELOPED
Afghanistan	Dominica	Maldives	St. Kitts and Nevis	Australia
Albania	Dominican Republic	Mali	St. Lucia	Austria
Algeria	Ecuador	Marshall Islands	St. Vincent and the Grenadines	Belgium
Angola	Egypt	Mauritania	Sudan	Canada
Antigua and Barbuda	El Salvador	Mauritius	Suriname	Cyprus
Argentina	Equatorial Guinea	Mexico	Syria	Czech Republic
Armenia	Eritrea	Micronesia	Tajikistan	Denmark
Aruba	Eswatini	Moldova	Tanzania	Estonia
Azerbaijan	Ethiopia	Mongolia	Thailand	Finland
The Bahamas	Fiji	Montenegro	Timor-Leste	France
Bahrain	Gabon	Morocco	Togo	Germany
Bangladesh	Gambia	Mozambique	Tonga	Greece
Barbados	Georgia	Myanmar	Trinidad and Tobago	Norway
Belarus	Ghana	Namibia	Tunisia	Iceland
Belize	Grenada	Nauru	Turkey	Ireland
Benin	Guatemala	Nepal	Turkmenistan	Israel
Bhutan	Guinea	Nicaragua	Tuvalu	Italy
Bolivia	Guinea-Bissau	Niger	Uganda	Japan
Bosnia and Herzegovina	Guyana	Nigeria	Ukraine	Latvia
Botswana	Haiti	Oman	United Arab Emirates	Lithuania
Brazil	Honduras	Pakistan	Uruguay	Luxembourg
Brunei Darussalam	Hungary	Palau	Uzbekistan	Malta
Bulgaria	India	Panama	Vanuatu	Netherlands
Burkina Faso	Indonesia	Papua New Guinea	Venezuela	New Zealand
Burundi	Iran	Paraguay	Vietnam	Portugal
Cabo Verde	Iraq	Peru	Yemen	San Marino
Cambodia	Jamaica	Philippines	Zambia	Slovak Republic
Cameroon	Jordan	Poland	Zimbabwe	Slovenia
Central African Republic	Kazakhstan	Qatar		Spain
Chad	Kenya	Romania		Sweden
Chile	Kiribati	Russia		Switzerland
China	Kosovo	Rwanda		United Kingdom
Colombia	Kuwait	Samoa		United States
Comoros	Kyrgyz Republic	São Tomé and Príncipe		
DR of Congo	Lao P.D.R.	Saudi Arabia		
R. of Congo	Lebanon	Senegal		
Costa Rica	Lesotho	Serbia		
Côte d'Ivoire	Liberia	Seychelles		
Croatia	Libya	Sierra Leone		
Djibouti	FYR Macedonia	Solomon Islands		
	Madagascar	Somalia		
	Malawi	South Africa		
	Malaysia	South Sudan		
		Sri Lanka		

[10] Baseline list of countries extracted from the IMF website: https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/groups.htm (Last accessed July 30, 2020).

The pie chart in Figure 4.4. shows the distribution of announced M&A deals in our sample by location. It can be observed that the percentage of home country deals is slightly higher than that of foreign deals (57% versus 43%). Among the foreign deals, developing economies have attracted a higher percentage of announced M&As from the firms in our sample than more developed locations.

Figure 4.4. Announced M&A deals by location.



4.4.2 Independent variable

The independent variable in this chapter is the number of CSiR events that the firm has been involved in during year *t*. As mentioned already in Chapter 3,[11] we created a CSiR database by collecting and coding media publications mainly included in the LexisNexis directory. We used the following keywords to identify the relevant news items: *accus**; *boycott*; *fine**; *fraud*; *guilty*;

[11] For a more detailed description of the data gathering and codification, please refer to the *Methodology* section included in Chapter 3.

*harass**; *irresponsible*; *jail*; *lawsuit*; *legal proceedings*; *misconduct*; *product recall*; *scandal*; *sue**; *unethical*, *violat**. We complemented this information gathering process with a more generic Internet search to verify that we were not overlooking any additional instances of CSiR.

4.4.3 Moderating variables

Corporate Political Activity (CPA). We proxy the CPA of the firm by its total lobbying expenditures. Following Croci *et al.*'s (2017) paper on CPA in the M&A context, we obtained the data from the Centre for Responsive Politics (opensecrets.org).

Corporate reputation. We define this variable as a dummy that takes the value of 1 if the firm is listed in Fortune's *World's Most Admired Companies*[12] in year *t* and 0 otherwise. This list is a widely used proxy of corporate reputation in the strategic management literature (e.g. Fombrun and Shanley, 1990; Barchiesi and Fronzetti Colladon, in press; McDonnell and King, 2013; Staw and Epstein, 2000; Tetrault, Sirsly and Lvina, 2019). According to the methodology posted on their website, Fortune collaborates with management consulting firm Korn Ferry to determine the best-regarded companies in 52 industries. To do so, "Korn Ferry asks executives, directors, and analysts to rate enterprises in their own industry on nine criteria, from investment value and quality of management and products to social responsibility and ability to attract talent. A company's score must rank in the top half of its industry survey to be listed".[13]

4.4.4 Control variables

In this chapter we also introduced some control variables that may affect the number of announced M&As to rule out alternative explanations of our findings. First, we controlled for ***firm***

[12] https://fortune.com/worlds-most-admired-companies/ (Last accessed July 30, 2020).
[13] https://fortune.com/franchise-list-page/worlds-most-admired-companies-2020-methodology (Last accessed July 30, 2020).

size (measured as the total number of employees). Because firms' financial structure, profitability and growth prospects can also affect whether they announce a new M&A, we also controlled for their ***leverage*** (long-term debt to total assets); ***return on assets*** (ROA); and ***Tobin's q***, calculated using Chung and Pruitt's formula (1994)[14]. We retrieved the data to build these variables from COMPUSTAT, the companies' annual reports and the SEC website.

Additionally, we added several control variables related to the CSiR events included in the analysis:[15] ***type of CSiR*** (fraud, bribery and corruption, competition, environment, discrimination, product safety, human rights, and other); as well as dummies reflecting whether the firm had been ***fined*** or ***boycotted*** as a result of the CSiR event, and whether the CSiR issue was still ***outstanding*** at the end of the study's timeframe. We also controlled for the ***reach*** of the articles found in terms of readership numbers and geographic range and ***severity*** of the consequences of the CSiR event.[16] The following bullet points summarize the definition of the two measures:

- *Reach:* sum of the reach of the CSiR events in year t. Each event is codified as follows: 0 = no CSiR event; 1 = low; 2 = medium; 3 = high.
- *Severity:* sum of the severity of the CSiR events in year t. Each event is codified as follows: 0 = no CSiR event; 1 = low; 2 = medium; 3 = high.

Finally, we added a dummy taking the value of 1 if there is a right-wing party governing the State where the firm is headquartered and 0 otherwise, and industry and year dummies.

[14] Tobin's q = $\frac{MVE+PS+DEBT}{TA}$; where MVE = market value; PS = liquidation value of the outstanding preferred stock; DEBT = short-term liabilities net of short-term assets plus book value of any long-term debt; and TA = book value of total assets.
[15] We created all the control variables outlined in this paragraph based on our unique CSiR database.
[16] The *reach* and *severity* variables come from Chapter 3, which includes a more detailed description of each of them. For more information, please refer to pages 117 to 130 of this thesis.

4.4.5 Descriptive statistics

Table 4.2. features the correlations and descriptive statistics of the key variables included in the analyses of this chapter. All our variables include one lag except for the dependent variables. We did so to alleviate potential reverse causality concerns and to better capture the effect of CSiR on the number of announced M&As (Wan and Hoskisson, 2003). Following Jaccard and Turrisi (2003), we mean-centered the main effect (i.e. CSiR) as well as the continuous moderating variable (i.e. lobbying expenditures) prior to calculating the interaction terms to prevent any high correlations between them. Although most of the pairwise correlations that appear on the table are low (below 0.5) except for some linked to reach and severity (>0.8). Nonetheless, our results are robust to the removal of these variables, which suggests that multicollinearity is not a concern in our models.

Table 4.2. Descriptive statistics and correlations.

		Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8
1	Number of announced M&As	3.04	4.64	0.00	50.00	1.00							
2	Number of announced M&As (developing)	0.50	1.36	0.00	23.00	0.69	1.00						
3	CSiR	0.00	0.32	-0.09	2.91	0.12	0.10	1.00					
4	Lobbying expenditures	0.02	3.93	-2.65	42.86	0.29	0.20	0.16	1.00				
5	Corporate reputation	0.11	0.31	0.00	1.00	0.32	0.25	0.12	0.29	1.00			
6	Size	69.54	155.71	0.09	2300.00	0.19	0.19	0.04	0.22	0.40	1.00		
7	Leverage	0.23	0.16	0.00	1.65	-0.13	-0.09	-0.04	-0.08	-0.10	-0.02	1.00	
8	ROA	4.87	13.38	-548.44	76.91	0.05	0.02	-0.02	0.04	0.08	0.05	-0.12	1.00
9	Tobin's q	1.58	0.95	0.07	7.70	0.02	-0.01	-0.01	-0.08	0.19	0.06	0.03	0.28
10	Party ruling the State	0.77	0.42	0.00	1.00	0.13	0.08	-0.01	0.06	0.04	0.06	-0.02	0.01
11	Fraud	0.02	0.15	0.00	1.00	0.12	0.11	0.49	0.05	0.05	0.02	-0.04	-0.03
12	Bribery and corruption	0.02	0.13	0.00	1.00	0.05	0.03	0.44	0.07	0.00	0.01	-0.03	-0.01
13	Competition	0.02	0.15	0.00	1.00	0.06	0.03	0.53	0.08	0.08	0.00	0.01	0.01
14	Environment	0.01	0.11	0.00	1.00	-0.01	0.02	0.39	0.13	0.04	0.04	-0.01	-0.02
15	Discrimination	0.00	0.06	0.00	1.00	0.00	0.01	0.17	0.00	0.02	0.01	-0.01	-0.01
16	Product safety	0.01	0.09	0.00	1.00	0.01	-0.00	0.26	0.06	0.03	0.01	-0.02	0.02
17	Human rights	0.00	0.06	0.00	1.00	0.00	0.01	0.20	0.00	0.06	0.02	0.01	0.03
18	Fined	0.01	0.07	0.00	1.00	0.01	-0.00	0.26	0.07	0.06	0.02	0.00	-0.00
19	Boycott	0.00	0.05	0.00	1.00	-0.00	0.01	0.14	0.02	0.06	0.02	0.01	0.02
20	Outstanding	0.01	0.11	0.00	2.00	0.02	0.03	0.35	0.04	0.08	-0.00	-0.01	0.02
21	Reach	0.20	0.70	0.00	3.00	0.11	0.10	0.91	0.15	0.10	0.03	-0.04	-0.01
22	Severity	0.18	0.63	0.00	4.00	0.10	0.08	0.86	0.15	0.11	0.03	-0.04	-0.01

		9	10	11	12	13	14	15	16	17	18	19	20	21	22
9	Tobin's q	1.00													
10	Party ruling the State	0.09	1.00												
11	Fraud	-0.06	-0.02	1.00											
12	Bribery and corruption	-0.03	-0.02	0.00	1.00										
13	Competition	0.04	0.03	-0.01	0.06	1.00									
14	Environment	-0.03	-0.05	-0.02	0.04	0.05	1.00								
15	Discrimination	-0.03	-0.01	0.03	-0.01	0.04	-0.01	1.00							
16	Product safety	0.06	0.02	-0.01	-0.01	0.02	-0.01	-0.01	1.00						
17	Human rights	0.09	0.00	-0.01	-0.01	0.03	-0.01	-0.00	-0.01	1.00					
18	Fined	0.00	0.02	0.02	0.03	0.20	0.27	-0.00	0.11	-0.00	1.00				
19	Boycott	0.08	0.01	0.10	0.06	0.05	-0.01	-0.00	0.09	-0.00	-0.00	1.00			
20	Outstanding	0.04	-0.05	0.10	0.24	0.13	0.14	0.11	0.11	0.28	-0.01	0.14	1.00		
21	Reach	0.01	-0.02	0.51	0.40	0.48	0.34	0.14	0.27	0.21	0.20	0.18	0.32	1.00	
22	Severity	0.00	-0.02	0.46	0.36	0.47	0.33	0.18	0.29	0.18	0.16	0.19	0.42	0.89	1.00

4.5 Analytical Procedure

Our dependent variable of the number of announced M&As is non-negative and integer valued. Following Cameron and Trivedi (2013), we ran overdispersion tests to choose between a Poisson or a negative binomial— the two most suitable model specifications for this type of dependent variable. The test rejected the null hypothesis of no overdispersion. Hence, we favored the negative binomial specification. Specifically, we used generalized estimating equation (GEE) population-averaged negative binomial models with an exchangeable correlation structure and robust standard errors. We favored this analytical procedure over random and fixed-effects specifications because it is efficient and accounts for unobserved heterogeneity (Krishnan and Kozhikode, 2015).

4.6 Results

Tables 4.3. and 4.4. report the GEE negative binomial regression results derived from our analysis. The final sample includes 2,592 observations pertaining to 304 firms. The main reasons that we lose observations are either a lack of available data or because firms disappear by ceasing their activity or getting delisted during the study timeframe. Nonetheless, the missing observation are non-systematic and, therefore, we do not anticipate any bias in our results.

The dependent variable in Table 4.3. is defined as the number of announced M&As. Model I is the baseline model that includes the control variables only. Model II adds the main effect (i.e. CSiR) as well as the moderating variables (i.e. lobbying expenditures and corporate reputation). Models III and IV also account for the each of the interaction effects of CSiR. Finally, Model V presents the full model.

Table 4.3. GEE negative binomial regressions predicting the count of announced M&As.

	Model I	Model II	Model III	Model IV	Model V
CSiR		-0.292	-0.113	-0.571***	-0.397**
		(0.134)	(0.589)	(0.002)	(0.039)
Lobbying expenditures		0.049***	0.051***	0.048***	0.051***
		(0.000)	(0.000)	(0.000)	(0.000)
Corporate reputation		0.561***	0.563***	0.543***	0.538***
		(0.004)	(0.003)	(0.005)	(0.005)
CSiR*Lobbying expenditures			-0.016		-0.027**
			(0.135)		(0.024)
CSiR*Corporate reputation				0.293**	0.419***
				(0.019)	(0.002)
Size	0.003***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.002)	(0.002)	(0.001)	(0.002)
Leverage	-1.256***	-0.879***	-0.867***	-0.877***	-0.855***
	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)
ROA	0.013**	0.013***	0.013***	0.013***	0.013***
	(0.024)	(0.009)	(0.008)	(0.007)	(0.006)
Tobin's q	0.097	0.058	0.058	0.057	0.057
	(0.147)	(0.331)	(0.327)	(0.336)	(0.333)
Party ruling the state	0.368***	0.338***	0.335***	0.339***	0.336***
	(0.000)	(0.000)	(0.001)	(0.000)	(0.001)
Fraud	0.412*	0.718**	0.563*	0.915***	0.748**
	(0.068)	(0.020)	(0.074)	(0.002)	(0.012)
Bribery and corruption	0.131	0.482*	0.334	0.721***	0.583**
	(0.525)	(0.066)	(0.226)	(0.009)	(0.038)
Competition	0.478**	0.722**	0.568*	0.913***	0.749**
	(0.018)	(0.013)	(0.058)	(0.001)	(0.012)
Environment	0.133	0.472	0.332	0.724*	0.602
	(0.617)	(0.210)	(0.369)	(0.054)	(0.105)
Discrimination	0.378	0.821**	0.671*	1.076***	0.928**
	(0.331)	(0.034)	(0.088)	(0.007)	(0.023)
Product safety	0.274	0.569	0.418	0.799**	0.652*
	(0.353)	(0.114)	(0.242)	(0.028)	(0.064)
Human rights	0.056	0.432	0.236	0.607*	0.368
	(0.847)	(0.211)	(0.504)	(0.072)	(0.290)
Fined	-0.009	-0.040	-0.022	-0.063	-0.052
	(0.977)	(0.914)	(0.951)	(0.872)	(0.888)
Boycott	-0.372	-0.333	-0.362	-0.350	-0.409
	(0.336)	(0.314)	(0.293)	(0.282)	(0.236)
Outstanding	0.128	-0.030	-0.004	-0.139	-0.150
	(0.526)	(0.874)	(0.981)	(0.416)	(0.350)
Reach	-0.021	-0.026	-0.026	-0.017	-0.015
	(0.811)	(0.781)	(0.781)	(0.854)	(0.877)
Severity	0.005	-0.066	-0.066	-0.077	-0.080
	(0.950)	(0.412)	(0.403)	(0.334)	(0.311)

Constant	0.301	0.412**	0.422**	0.393**	0.401**
	(0.134)	(0.038)	(0.034)	(0.047)	(0.043)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	376.22***	469.59***	460.82***	553.53***	582.03***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,592	2,592	2,592	2,592	2,592
Number of firms	304	304	304	304	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Contrary to the proposed positive relationship between CSiR and the number of M&As announced by the firm in H1, our results show a negative relationship between these two variables (even if it is not constant across all models). This seems to suggest that CSiR is punished in the M&A context, either because of the difficulties of finding a partner or because of financial restrictions derived from the event (e.g. payment of fines, payments to victims, lower sales). Interestingly, the results support our expected relationships in H3 and H4. In line with H3, lobbying expenditures negatively moderates the relationship between CSiR and the number of announced M&As (β = -0.027; p-value = 0.024). And consistent with H4, corporate reputation positively moderates the aforementioned relationship (β = 0.419; p-value = 0.002).

Figures 4.5. and 4.6. provide a graphical illustration of the above results. In Figure 4.5., it can be observed that firms with no CSiR are more prone to announce new M&As. However, as CSiR increases, firms with high lobbying expenditures tend to avoid announcing any new M&As.

Figure 4.5. Multiplicative effect of announced M&As and corporate social irresponsibility by lobbying expenditures.

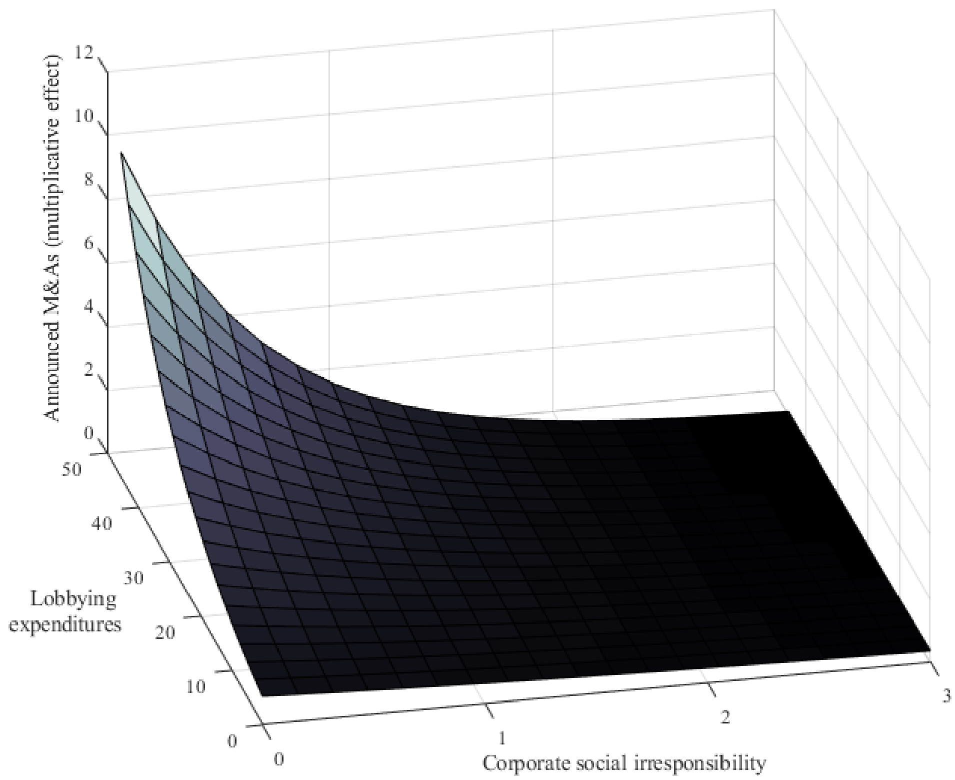
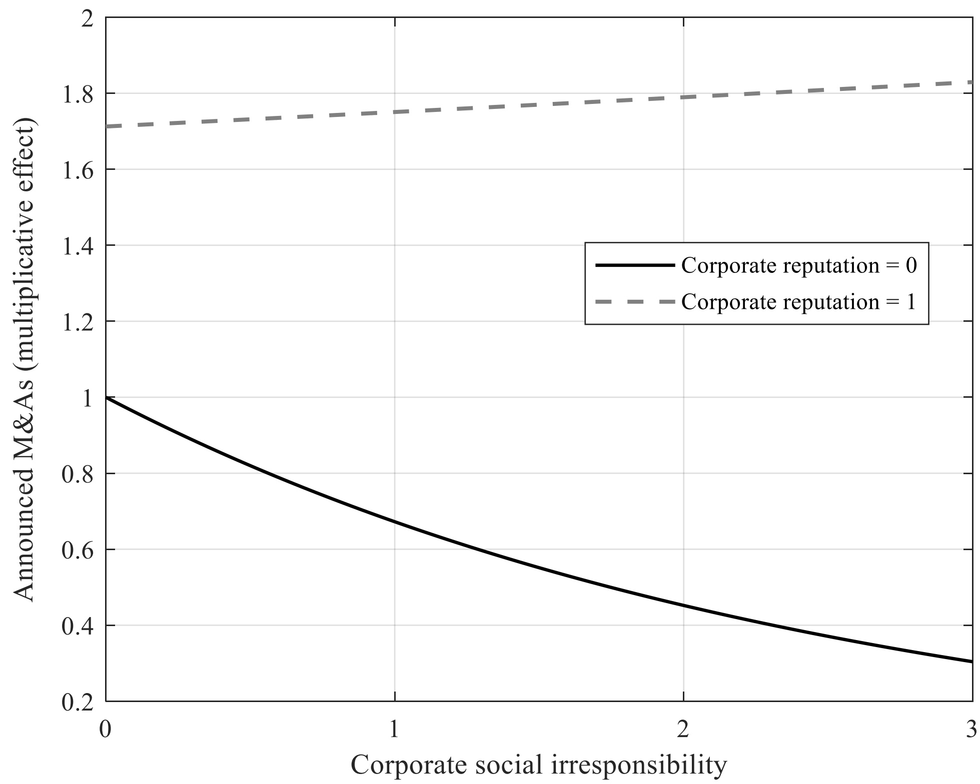


Figure 4.6. also reflects some interesting findings around the moderating effect of corporate reputation, defined as a dummy variable taking the value of 1 if the firm is listed in Fortune's *World's Most Admired Companies* in year *t* and 0 otherwise. Firms that do not appear on this list are less prone to announce new M&As as the number of CSiR events they are involved in increases. By contrast, those firms that appear on the list (the ones with the highest corporate reputation), not only do not decrease their M&A activity but actually increase it, which could be interpreted as a sort of corporate reputation insurance-like effect.

Figure 4.6. Multiplicative effect of announced M&As and corporate social irresponsibility by corporate reputation.



As for the control variables in this set of regressions, the size and profitability of a firm have a positive impact on the number of announced M&As. By contrast, the more indebted the firm is, the less likely it will pursue an M&A. It is also interesting to note that some types of CSiR events have a positive and significant effect on the number of announced M&As; namely, fraud, bribery and corruption, competition, and discrimination. This may suggest that not all CSiR instances are punished equally. We shall also mention that firms headquartered in states where the Democratic party is in power are more prone to announce new M&As.

H2 expected a positive relationship between CSiR and the number of M&As announced in developing countries. To test this hypothesis, we ran a different regression using the announced number of M&As in developing countries as our dependent variable (see Table 4.4). The coefficient of the CSiR variable does not have the expected sign, although it is nonsignificant (β = -0.241; p-value = 0.448). Therefore, we cannot affirm that CSiR has a positive impact on the number of announced M&As in developing countries.

Table 4.4. GEE negative binomial regression predicting the count of announced M&As in developing economies.

	Model I
CSiR	-0.241 (0.448)
Lobbying expenditures	0.047*** (0.008)
Corporate reputation	0.725** (0.018)
Size	0.002*** (0.000)
Leverage	-0.871 (0.101)
ROA	0.006 (0.411)
Tobin's q	0.087 (0.315)
Party ruling the state	0.337* (0.098)
Fraud	0.617 (0.258)
Bribery and corruption	0.162 (0.705)
Competition	0.502 (0.325)
Environment	0.685 (0.402)
Discrimination	1.205** (0.048)
Product safety	0.096 (0.898)
Human rights	0.624 (0.405)
Fined	-0.585 (0.477)
Boycott	0.171 (0.673)

Outstanding	0.199
	(0.577)
Reach	0.144
	(0.573)
Severity	-0.147
	(0.496)
Constant	-1.373***
	(0.007)
Industry and year dummies	Included
Wald χ^2	255.96***
	(0.000)
Observations	2,592
Number of firms	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

4.7 Robustness Checks and Additional Tests

We ran several additional regressions to both assess the robustness of our findings and shed more light on the central research topic of this chapter. First, we checked whether our estimates could be affected by reverse causality issues by lagging our independent, moderating and control variables two periods instead of one. As shown in Tables 4.5. and 4.6., our results held, which suggests reverse causality does not seem to be an issue in our study.

Table 4.5. GEE negative binomial regressions predicting the count of announced M&As (2 lags).

	Model I	Model II	Model III	Model IV	Model V
CSiR		-0.243*	0.314	-0.316**	0.151
		(0.077)	(0.296)	(0.016)	(0.590)
Lobbying expenditures		0.048***	0.052***	0.048***	0.052***
		(0.000)	(0.000)	(0.000)	(0.000)
Corporate reputation		0.566***	0.571***	0.560***	0.554***
		(0.003)	(0.003)	(0.004)	(0.004)
CSiR*Lobbying expenditures			-0.036***		-0.044***
			(0.007)		(0.001)
CSiR*Corporate reputation				0.111	0.346**
				(0.378)	(0.011)

Size	0.002***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.004)	(0.004)	(0.004)	(0.004)
Leverage	-1.238***	-0.748***	-0.714**	-0.748***	-0.707**
	(0.000)	(0.007)	(0.011)	(0.007)	(0.011)
ROA	0.009	0.008	0.008*	0.008	0.008*
	(0.129)	(0.105)	(0.092)	(0.103)	(0.084)
Tobin's q	0.109	0.075	0.075	0.075	0.076
	(0.100)	(0.206)	(0.197)	(0.205)	(0.195)
Party ruling the state	0.353***	0.335***	0.333***	0.335***	0.331***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fraud	0.533**	0.750**	0.247	0.785***	0.308
	(0.042)	(0.019)	(0.514)	(0.010)	(0.391)
Bribery and corruption	0.315	0.680**	0.183	0.740***	0.314
	(0.191)	(0.016)	(0.617)	(0.008)	(0.367)
Competition	0.336	0.506*	-0.024	0.535*	0.011
	(0.141)	(0.077)	(0.948)	(0.052)	(0.976)
Environment	0.001	0.284	-0.202	0.344	-0.070
	(0.997)	(0.398)	(0.614)	(0.292)	(0.854)
Discrimination	-0.410	-0.047	-0.638	0.002	-0.564
	(0.331)	(0.903)	(0.155)	(0.995)	(0.189)
Product safety	0.112	0.430	-0.081	0.489	0.042
	(0.674)	(0.162)	(0.824)	(0.111)	(0.907)
Human rights	0.573	0.641*	0.134	0.634*	0.056
	(0.142)	(0.091)	(0.765)	(0.083)	(0.895)
Fined	-0.456*	-0.574*	-0.503	-0.583*	-0.514
	(0.088)	(0.088)	(0.108)	(0.088)	(0.108)
Boycott	0.087	0.090	-0.017	0.093	-0.031
	(0.777)	(0.764)	(0.959)	(0.763)	(0.928)
Outstanding	-0.089	-0.118	-0.124	-0.139	-0.192
	(0.741)	(0.649)	(0.628)	(0.582)	(0.429)
Reach	-0.107	-0.109	-0.094	-0.107	-0.083
	(0.323)	(0.387)	(0.427)	(0.404)	(0.503)
Severity	0.128	0.069	0.059	0.069	0.057
	(0.223)	(0.544)	(0.578)	(0.552)	(0.600)
Constant	-0.125	-0.028	0.007	-0.032	-0.001
	(0.546)	(0.889)	(0.972)	(0.875)	(0.995)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	320.13***	468.91***	413.53***	647.64***	507.89***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,319	2,270	2,270	2,270	2,270
Number of firms	302	297	297	297	297

pval in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4.6. GEE negative binomial regression predicting the count of announced M&As in developing economies (2 lags).

	Model I
CSiR	-0.571
	(0.260)
Lobbying expenditures	0.048***
	(0.004)
Corporate reputation	0.658**
	(0.043)
Size	0.002***
	(0.000)
Leverage	-1.077*
	(0.056)
ROA	0.005
	(0.590)
Tobin's q	0.113
	(0.196)
Party ruling the state	0.275
	(0.202)
Fraud	1.280
	(0.132)
Bribery and corruption	1.033
	(0.237)
Competition	0.985
	(0.203)
Environment	0.673
	(0.431)
Discrimination	-0.314
	(0.786)
Product safety	0.010
	(0.991)
Human rights	1.232
	(0.205)
Fined	-1.493*
	(0.088)
Boycott	0.408
	(0.480)
Outstanding	-0.023
	(0.951)
Reach	-0.001
	(0.997)
Severity	-0.118
	(0.481)
Constant	-1.640***
	(0.003)
Industry and year dummies	Included

Wald χ^2	225.62***
	(0.000)
Observations	2,270
Number of firms	297

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Second, we used an alternative definition of our dependent variable. Instead of the count of announced M&As, we introduced the count of effective M&As. Tables 4.7. and 4.8. contain the results of our regressions, which are consistent with the ones found in our core analysis.

Table 4.7. GEE negative binomial regressions predicting the count of effective M&As.

	Model I	Model II	Model III	Model IV	Model V
CSiR		-0.164	0.021	-0.451**	-0.279
		(0.428)	(0.925)	(0.022)	(0.157)
Lobbying expenditures		0.048***	0.050***	0.047***	0.050***
		(0.000)	(0.000)	(0.000)	(0.000)
Corporate reputation		0.579***	0.582***	0.560***	0.556***
		(0.005)	(0.004)	(0.007)	(0.007)
CSiR*Lobbying expenditures			-0.018		-0.030**
			(0.126)		(0.015)
CSiR*Corporate reputation				0.310**	0.455***
				(0.021)	(0.001)
Size	0.003***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.001)	(0.002)	(0.001)	(0.002)
Leverage	-1.121***	-0.753**	-0.738**	-0.750**	-0.723**
	(0.000)	(0.011)	(0.014)	(0.011)	(0.015)
ROA	0.014**	0.014***	0.014***	0.014***	0.014***
	(0.021)	(0.010)	(0.009)	(0.008)	(0.006)
Tobin's q	0.086	0.048	0.049	0.047	0.047
	(0.229)	(0.462)	(0.455)	(0.469)	(0.462)
Party ruling the state	0.398***	0.367***	0.364***	0.368***	0.364***
	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)
Fraud	0.407	0.562	0.405	0.746**	0.579*
	(0.101)	(0.104)	(0.238)	(0.027)	(0.077)
Bribery and corruption	0.240	0.448	0.301	0.686**	0.558*
	(0.255)	(0.124)	(0.306)	(0.023)	(0.062)
Competition	0.447*	0.566*	0.406	0.754**	0.584*
	(0.051)	(0.087)	(0.221)	(0.018)	(0.069)
Environment	0.071	0.233	0.106	0.471	0.375
	(0.793)	(0.534)	(0.772)	(0.210)	(0.307)

Discrimination	0.664	0.972**	0.820*	1.224***	1.082**
	(0.153)	(0.028)	(0.068)	(0.006)	(0.017)
Product safety	0.322	0.452	0.304	0.673	0.535
	(0.382)	(0.321)	(0.492)	(0.148)	(0.226)
Human rights	0.233	0.476	0.275	0.644	0.397
	(0.481)	(0.267)	(0.517)	(0.135)	(0.356)
Fined	-0.004	-0.006	0.011	-0.026	-0.016
	(0.991)	(0.989)	(0.979)	(0.955)	(0.970)
Boycott	-0.573	-0.590	-0.623	-0.638*	-0.721*
	(0.267)	(0.159)	(0.152)	(0.085)	(0.054)
Outstanding	0.119	-0.031	-0.006	-0.139	-0.156
	(0.585)	(0.882)	(0.978)	(0.461)	(0.385)
Reach	-0.040	-0.046	-0.044	-0.032	-0.025
	(0.638)	(0.580)	(0.588)	(0.702)	(0.764)
Severity	0.022	-0.046	-0.047	-0.059	-0.066
	(0.783)	(0.556)	(0.534)	(0.446)	(0.392)
Constant	-0.045	0.078	0.086	0.060	0.064
	(0.850)	(0.744)	(0.719)	(0.802)	(0.788)
Industry and year dummies	Included	Included	Included	Included	Included
Wald χ^2	376.66***	480.84***	470.74***	598.33***	622.17***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,592	2,592	2,592	2,592	2,592
Number of firms	304	304	304	304	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4.8. GEE negative binomial regression predicting the count of effective M&As in developing economies.

	Model I
CSiR	-0.070
	(0.857)
Lobbying expenditures	0.040**
	(0.023)
Corporate reputation	0.657**
	(0.042)
Size	0.002***
	(0.000)
Leverage	-0.472
	(0.372)
ROA	0.015*
	(0.090)
Tobin’s q	0.039
	(0.644)

Party ruling the state	0.326
	(0.119)
Fraud	0.201
	(0.744)
Bribery and corruption	-0.016
	(0.970)
Competition	0.199
	(0.742)
Environment	0.101
	(0.886)
Discrimination	0.982
	(0.197)
Product safety	-0.361
	(0.687)
Human rights	-0.307
	(0.713)
Fined	-0.347
	(0.683)
Boycott	0.085
	(0.856)
Outstanding	0.085
	(0.851)
Reach	0.103
	(0.568)
Severity	-0.019
	(0.913)
Constant	-1.895***
	(0.001)
Industry and year dummies	Included
Wald χ^2	246.64***
	(0.000)
Observations	2,592
Number of firms	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Third, we aimed to unpack the nonsignificant effect of the lobbying expenditures interaction in Model III of Tables 4.3. and 4.4. To test whether said lobbying expenditures are more effective within the US than in foreign locations, we used an alternative definition of our dependent variable based on the count of announced and effective M&As in the US (Table 4.9.). The evidence found suggests that whereas this interaction does not have a significant interaction effect on the count of announced M&As (β = -0.018; p-value = 0.110), it does on the count of effective M&As (β = -0.023; p-value = 0.074). This suggests that lobbying expenditures combined with CSiR have a more punitive effect on effective M&As than on announced ones.

Table 4.9. GEE negative binomial regressions predicting the count of announced/effective M&As in the US.

	Announced M&As (US)	Effective M&As (US)
CSiR	-0.014	0.145
	(0.943)	(0.481)
Lobbying expenditures	0.055***	0.057***
	(0.000)	(0.000)
Corporate reputation	0.473***	0.554***
	(0.004)	(0.003)
CSiR*Lobbying expenditures	-0.018	-0.023*
	(0.110)	(0.074)
Size	0.001	0.001**
	(0.106)	(0.014)
Leverage	-0.664**	-0.559*
	(0.012)	(0.055)
ROA	0.010**	0.010*
	(0.046)	(0.088)
Tobin's q	0.023	0.017
	(0.715)	(0.809)
Party ruling the state	0.330***	0.371***
	(0.002)	(0.002)
Fraud	0.320	0.147
	(0.318)	(0.680)
Bribery and corruption	0.321	0.135
	(0.260)	(0.670)
Competition	0.400	0.231
	(0.237)	(0.518)
Environment	0.163	0.127
	(0.609)	(0.722)
Discrimination	0.191	0.437
	(0.597)	(0.248)
Product safety	0.484	0.360
	(0.217)	(0.468)
Human rights	-0.048	-0.029
	(0.909)	(0.957)
Fined	-0.021	-0.369
	(0.931)	(0.180)

Boycott	-0.621	-1.657**
	(0.255)	(0.046)
Outstanding	-0.012	0.057
	(0.955)	(0.804)
Reach	-0.031	-0.019
	(0.732)	(0.849)
Severity	-0.025	-0.035
	(0.747)	(0.691)
Constant	-0.109	-0.368
	(0.602)	(0.118)
Industry and year dummies	Included	Included
Wald χ^2	312.65***	314.66***
	(0.000)	(0.000)
Observations	2,592	2,592
Number of firms	304	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Finally, we examined whether there are any differences in the impact of CSiR on M&A activity if we include the CSiR track record—accumulated number of CSiR events until year *t*—instead of CSiR in year *t* and 2) and the firm's M&A experience as the dependent variable; that is, the accumulated number of announced and effective M&As of firm *i* until year *t*. The findings reported in Table 4.10. imply that the expected positive relationship between CSiR and the number of announced M&As established in H1 only appears when the firm has a poor CSiR track record (β = 0.084; p-value = 0.098). As for the impact of this independent variable on the count of effective M&As, it is interesting to note the positive and significant coefficient of the CSiR track record variable in Model IV (β = 0.119; p-value = 0.025). This result reveals that those firms involved in a higher number of CSiR events within the period of our study also have a higher number of M&As that have become effective during the studied timeframe.

Table 4.10. GEE negative binomial regressions predicting the count of announced/effective M&As (CSiR track record as independent variable).

	Model I Announced M&As (flow)	Model II Announced M&As (stock)	Model III Effective M&As (flow)	Model IV Effective M&As (stock)
CSiR track record	0.084*	0.134	0.086	0.119**
	(0.098)	(0.157)	(0.122)	(0.025)
Lobbying expenditures	0.047***	0.027	0.046***	0.044***
	(0.000)	(0.116)	(0.000)	(0.002)
Corporate reputation	0.531***	0.405**	0.550***	0.608***
	(0.004)	(0.027)	(0.005)	(0.005)
Size	0.001***	0.001***	0.001***	0.002***
	(0.001)	(0.002)	(0.001)	(0.000)
Leverage	-0.873***	-0.702**	-0.747**	-0.554*
	(0.001)	(0.038)	(0.013)	(0.065)
ROA	0.013***	0.005*	0.014***	0.005**
	(0.007)	(0.094)	(0.008)	(0.037)
Tobin's q	0.060	0.076	0.050	0.032
	(0.308)	(0.198)	(0.439)	(0.604)
Party ruling the state	0.338***	0.393***	0.368***	0.453***
	(0.000)	(0.004)	(0.001)	(0.000)
Fraud	0.332	-0.260	0.298	0.378**
	(0.138)	(0.525)	(0.237)	(0.036)
Bribery and corruption	0.092	-0.489	0.182	0.179
	(0.647)	(0.161)	(0.388)	(0.310)
Competition	0.348*	-0.052	0.309	0.136
	(0.098)	(0.894)	(0.189)	(0.473)
Environment	0.090	-0.595	-0.025	-0.149
	(0.759)	(0.179)	(0.927)	(0.528)
Discrimination	0.541	-0.125	0.784*	0.188
	(0.180)	(0.790)	(0.096)	(0.596)
Product safety	0.179	-0.530	0.171	-0.210
	(0.542)	(0.289)	(0.659)	(0.433)
Human rights	0.115	-0.509	0.276	0.021
	(0.694)	(0.240)	(0.439)	(0.936)
Fined	-0.034	0.174	0.007	0.015
	(0.927)	(0.649)	(0.987)	(0.964)
Boycott	-0.284	-0.215	-0.536	-0.281
	(0.405)	(0.551)	(0.223)	(0.388)
Outstanding	-0.057	0.018	-0.060	-0.104
	(0.760)	(0.938)	(0.770)	(0.644)
Reach	-0.025	0.111	-0.044	-0.104*
	(0.791)	(0.308)	(0.604)	(0.086)
Severity	-0.077	-0.025	-0.054	0.045
	(0.356)	(0.802)	(0.501)	(0.529)

Constant	0.309	0.142	-0.034	0.777***
	(0.116)	(0.517)	(0.885)	(0.002)
Industry and year dummies	Included	Included	Included	Included
Wald χ^2	500.05***	374.71***	502.61***	2180.30***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2,592	2,592	2,592	2,592
Number of firms	304	304	304	304

pval in parentheses
*** p<0.01, ** p<0.05, * p<0.1

4.8 Discussion

In this chapter we set out to examine the impact of CSiR on M&A announcements and explore the following: (1) the effect of CSiR on external growth decisions, specifically the motivations of firms engaging in domestic and/or cross-border M&As, and (2) the moderating effects of lobbying expenditures and corporate reputation. We also performed additional tests to prove the robustness of our core results and complement them. We ran our analysis on the same sample of S&P 500 firms that we used in Chapter 3, adding information detailing M&A activity from the Thomson Financial SDC database.

Broadly speaking, our findings suggest that there is a partially significant negative relationship between CSiR in a certain year and the number of announced M&As (both domestic and cross-border). When focusing on M&A announcements in developing countries, the relation between both variables turns non-significant. Interestingly, our findings suggest that where firms are involved in a single or 'one-off' CSiR event, they will tend to decrease M&A announcements, potentially avoiding unnecessary attention to their actions. Nonetheless, our results change when we introduce an alternative independent variable that reckons the firm's CSiR record. Here we find that there is a significant positive relationship between accumulated CSiR and M&A

announcements, possibly because firms will increase their M&A activity to lessen backlash from primary and secondary stakeholders. Our results are in line with previous studies by Surroca *et al.* (2013) and Witt and Lewin (2007), which investigated how firms take strategic action to evade scrutiny. Adding to this, evidence from our analysis also supports our findings in the previous chapter, in which we noted how CPA exacerbates the negative outcomes of CSiR. Furthermore, as expected, we find that those firms with a good corporate reputation will announce a higher number of M&As than those that do not possess the same recognition in the markets.

We introduce a nonmarket approach to the M&A literature that is so far noticeably absent. Our aim is to extend M&A theory beyond just financial motivation of increasing shareholder wealth that has dominated the literature to date. Even though a growing number of scholars is trying to unpack the relationship between nonmarket initiatives and M&A activity, there is still a lack of research in this area. A changing business environment and a shift towards a more stakeholder-based model have important implications for the development of the M&A literature. Emerging research shows that a high CSR involvement in acquiring firms helps reduce uncertainty, which leads to faster completion times of the M&A process (Arouri *et al.*, 2019). Additionally, CSR engagement also increases stronger commitment to stakeholders, reducing the likelihood of breaching contracts (Deng *et al.*, 2013). These contributions are important starting points linking NMS to the M&A process, yet this needs further investigation. In the previous chapter, we discussed how investors and stock analysts are paying more attention to strategic CSR to improve financial performance (e.g. Ioannou and Serafeim, 2012). Applying the same logic to M&A literature, accounting for social and political activities could offer opportunities for better strategic fit across both acquirer and target firms. However, in this chapter we take a different approach, exploring how firms also use the different strands of nonmarket strategy as a form of insurance against CSiR behavior.

Our results support existing studies that associate increased investment in CSR and CPA to build reputation insurance. Using Fortune's *WMAC* survey to measure corporate reputation, our results seem to indicate that high reputation firms will engage in actions aimed at maintaining or increasing this high reputation status, thus lending support to the findings by Haleblian *et al.* (2017) and Luo *et al.* (2018). This once again suggests that highly reputable firms may be engaged in actions aimed at deflecting attention from certain behavior, without necessarily addressing the actual problem. In this regard, we associate firm visibility and size with high reputation and increased levels of stakeholder attention. Highly visible firms are more vulnerable to stakeholder sanctions, which means that they will try to control the message regarding their actions, specifically where CSiR occurs (Brammer and Millington, 2006).

The debate in business and society literature is heavily focused on proving the financial benefits of socially responsible investments. However, research is turning towards how firms use CSR and reputation as a risk management strategy, aimed at 'insuring' against negative events (Godfrey, 2005; Minor and Morgan, 2011). Indeed, Pfeffer (2016) remarks that certain firms involved in high profile CSiR incidents are still consistently ranked as prestigious and high performing firms. The BP Deepwater Horizon environmental disaster that took place in 2010 is an illustrative example. Despite its serious financial repercussions and reputational damage, within five years of the incident, the company was listed once again as the fifth most profitable oil and gas company worldwide[17].

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[17] https://www.forbes.com/sites/rrapier/2016/03/30/the-worlds-largest-public-oil-and-gas-companies/#698f53bd3173 (Last accessed August 27, 2020).

Theoretically, we also extend signaling theory into the nonmarket domain by highlighting how CSiR may distort the message firms wish to convey. By increasing M&A announcements, firms will look to divert attention away from CSiR behavior. Pursuing strategies to expand and grow operations, these tactics aim to signal to shareholders that the firm has strong financial resources, despite the potentially severe consequences from CSiR. While this behavior may ensure good relations with some primary stakeholders, this may not be the case with nonmarket stakeholders.

In addition, this chapter extends work by Barnett (2014), who claimed stakeholder attention plays a significant role in whether firms are punished for their irresponsible actions. When firms look to divert attention from CSiR by engaging in other activities, they are avoiding finding solutions to the actual problem and are further damaging stakeholder relations (Kotchen and Moon, 2012). Therefore, we see that taking an instrumental approach to stakeholder management, being open and transparent, communicating a firm's intentions could possibly offer a longer-term solution. All in all, working towards reducing information asymmetry between a firm and its stakeholders signals that firms will accept accountability for their actions and be more open when dealing with nonmarket stakeholders (Brammer and Millington, 2006; Flammer and Luo, 2017; Groening and Kanuri, 2018; Luo *et al.*, 2018).

4.9 Limitations and Future Research Directions

The study presented in this chapter is not without limitations. As mentioned in the previous chapter, our sample is restricted to S&P 500 firms, which means that we focus on large US-based corporations. Future research could once again examine whether our results hold in other research settings, such as developing countries and/or small and medium enterprises (SMEs).

We also see great potential for future research in the intersection of the M&A and nonmarket literatures. We have identified an emergent strand of M&A research in a nonmarket context that opens up many avenues to explore. One area to consider would be the use of CSR to reduce cultural barriers, specifically the liabilities of foreignness and outsidership in cross-border M&As. Scholars could investigate how firms can use CSR to reduce barriers in this process. For example, by engaging local stakeholders through CSR initiatives prior to or during an M&A process. Taking an instrumental stakeholder approach, they could examine potential collaborations between acquirer and target firm stakeholders to reduce potential conflicts and enhance synergies, both at home and in foreign countries.

Furthermore, in this chapter we focus on the CSiR behavior of the bidder firm. Future studies may also examine the target's responsible/irresponsible behaviors and political activity when unpacking how nonmarket factors impact the M&A process. Although we concentrate on the announcement phase, subsequent studies could also examine other stages of the M&A, such as integration and post-integration. It would also be interesting to analyze whether CSiR results in abandoned deals or divestments.

Finally, we would encourage researchers to analyze the impact of CSiR and nonmarket factors on other methods of growth, such as joint ventures. This could shed more light on the aftermath of CSiR by revealing whether and how firms respond to it.

4.10 References

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CHAPTER 5 - CONCLUSION

5.1 Concluding Remarks

This thesis has set out to explore the outcomes of corporate social irresponsibility (CSiR). We have conducted an extensive empirical analysis to examine the effect of CSiR on 1) financial performance; 2) non-financial performance; and 3) external growth decisions. Primarily drawing on instrumental stakeholder theory (IST) and signaling theory, we analyzed how firms engage with their stakeholders (both primary and secondary) to develop social and political capital to try to avoid stakeholder sanctions for CSiR behavior. Additionally, we sought to understand how firms' nonmarket strategies (NMS) and corporate reputation either intensify or buffer the positive and/or negative outcomes of CSiR.

We emphasize across the different chapters the importance of firms incorporating nonmarket factors into core strategic decisions. There is no doubt that CSR is an important intangible asset for firms to utilize to their advantage, with benefits ranging from increased reputation and the achievement of a competitive advantage to improved employee morale (Barnett and Salomon, 2012; McWilliams and Siegel, 2011). Furthermore, CPA is associated with improving the firms' competitive environment by influencing government policy in their favor (Hillman and Hitt, 1999). However, despite a few notable exceptions, the existing literature has so far overlooked the central role of nonmarket aspects when examining CSiR.

We acknowledge throughout this thesis the evolution of firms as social and political actors, undertaking the role once solely assigned to governments. On top of this is the increased complexity that comes with operating in a globalized business environment. Broadly speaking, our research revolves around the way in which firms are adapting to this changing business environment and are by necessity adapting their strategic goals and objectives to incorporate a nonmarket approach. However, our research questions whether firms can use nonmarket strategies effectively if socially irresponsible behavior is uncovered. Indeed, the overarching question in this thesis is the following: *Does CSiR adversely affect performance and strategic growth or can firms act with impunity?* The core structure of this thesis is comprised of three main chapters, which we briefly review below before we discuss the contribution to research, implications for practice and finally offer some concluding remarks.

In **Chapter 2** we aimed to systematically review the instrumental stakeholder theory literature (IST) to understand its trajectory since Donaldson and Preston's seminal paper (1995) and offer some avenues for future research. The central premise of IST is that firms can build relationships with their stakeholders to create long-term value (Jones, 1995). Though early research in stakeholder theory favored a normative approach, thus neglecting IST, we detected a renewed interest in applying IST (Bridoux and Stoelhorst, 2014). Our review identified 109 papers spanning from 1995-2019. Based on Laplume, Sonpar and Litz's classification of stakeholder themes (2008), we established the following categories capturing the research trajectory of IST: 1) *Identification and salience*; 2) *Firm performance*; 3) *Corporate social responsibility (CSR)*; and 4) *Theory debates*. We extended Laplume *et al.*'s classification (2008) by adding a fifth category: *Corporate social irresponsibility*. As firms operate in an increasingly challenging business environment, we see advantages of applying an instrumental approach to the firm-performance debate.

Firms face new challenges as social and political factors influence their performance goals. Our research sets out to determine if developing relationships with both primary and secondary stakeholder groups can offer a response to these challenges. Firms are continually seeking new ways to improve their financial and operational capabilities, in some cases at the expense of the very stakeholder groups they associate with. We noted that a significant portion of the IST debate centers on investigating how socially responsible behavior can improve financial performance, emphasizing the interactions between firms and their primary stakeholder groups. However, while research has advanced in this area, we observed that it had taken a mostly one-sided approach. Research has mainly investigated the 'good actions' of the firm, yet mostly ignored how firms' irresponsible acts have the potential to negatively affect firm performance (Brammer and Millington, 2008; Price and Sun, 2017).

By applying IST as our main theoretical approach, our research intended to investigate secondary or 'nonmarket' stakeholders and their changing relationships with firms and how this can impact performance. IST pushes the narrative that firms can improve overall performance by building stakeholder relationships. Yet IST does not account for any firms' irresponsible actions that can cause those same stakeholders to retaliate against said firms regarding their negative actions. In this respect, our research aligns with Price and Sun (2017) as we expand the boundaries of IST to investigate how CSiR can negatively impact the ability of firms to successfully achieve their strategic goals.

Our next chapter (**Chapter 3**) is built on the premise that CSiR shapes the financial and non-financial performance of firms. To explore this premise, we undertook an empirical investigation using a sample of firms listed on Standard and Poor's (S&P) 500 covering an 11-year timeframe, using a series of random effect regressions. We carried out an extensive data collection and codification of media publications that resulted in a unique dataset of 420 CSiR events in which the firms from our sample had been involved during the analyzed timeframe. We used this database to create our independent variable of CSiR as well as some of the control variables of the study, in which we introduced *Tobin's q* and *corporate social performance* (CSP) as our measures of financial and non-financial performance, respectively.

Our results indicated that there is no significant relationship between CSiR and Tobin's q. In contrast, they showed that CSiR has a negative impact on CSP. By separately analyzing financial and non-financial performance measures, we gain a more comprehensive understanding of the outcomes of CSiR. In addition, distinguishing between primary and secondary stakeholder groups in our non-financial performance measure allowed us to provide more fine-grained evidence on the impact of CSiR on each of these groups. Moreover, we obtain interesting insights from our two moderating variables in this chapter: *financial CPA* (i.e. lobbying expenditures) and *relational CPA* (i.e. distance from the firm's headquarters to the political capital of the country; namely, Washington DC, as they are all US-based). We find that financial CPA deepens the impact of the negative relationship between CSiR and non-financial performance. The same occurs with relational CPA, but only if this is proxied by the number of *revolvers*[1] hired by a certain firm.

Nonmarket scholars have put forward the notion that firms can align both strands on NMS (i.e. CSR and CPA) to improve firm performance (e.g. den Hond, Rehbein, de Bakker and Lankveld, 2014; Lawton, Doh and Rajwani, 2014). However, this research overlooks how CSiR shapes performance outcomes and that firms must adapt their social and political activities accordingly. As firms attempt to build a form of social and political capital, the tactics used can be viewed by some stakeholders as damaging to their interests. In this regard, CSiR can erode the gains of social and political investments made by firms since it is difficult to pursue an instrumental approach to stakeholder engagement when some stakeholders view a firm's actions with suspicion.

[1] As previously defined, revolvers are "government regulators, Congressional staff and even members of Congress who take new jobs with lobbying firms and private sector organizations that they often used to supervise". We introduced this variable in the additional tests run to complement our results.

In the final chapter (**<u>Chapter 4</u>**), we explore how CSiR impacts on a firm's core strategic decision processes. Specifically, its external growth decisions via M&As (both domestic and cross-border). We took the decision to focus on M&A activity as literature and practice describes this corporate strategy as the most popular form of external growth open to firms (Bauer, Dao, Matzler and Tarba, 2017). Prior research cites factors such as established production facilities, distribution networks and flexible payments in the form of stock options as motivations for pursuing M&As over other methods of growth (Huyghebaert and Luypaert, 2010; Reddy, 2014; Shimizu, Hitt, Vaidyanath and Pisano, 2004).

Using our sample of S&P 500 firms used in Chapter 3, we added information detailing firms' M&A activity from the *Thomson Financial SDC* database. We sought to examine the impact of CSiR on domestic and cross-border M&A announcements and whether this is used as a means of deflecting attention from the firms' "bad deeds". Our results provide partial evidence that when firms are involved in a single or 'one-off' CSiR event, they will decrease their M&A announcements. However, when considering a firm's CSiR track record, we find a significant positive relationship between accumulated CSiR and the number of M&As announced. This finding could be interpreted as firms attempting to avoid potential retaliation from primary and secondary stakeholders where CSiR has occurred.

In this chapter, we also added two moderating variables to our analysis; namely, *lobbying expenditures* and *corporate reputation*. By doing so, we address one of the research gaps in the current M&A literature, where nonmarket elements have been largely unexplored. Our results are in line with those in Chapter 3, as our analysis reveals that CPA further intensifies the negative outcomes of CSiR. Adding to this, we explore how firms involved in CSiR try to use reputation as a risk management strategy (Minor and Morgan, 2011). Our results support the insurance-like effect of a corporate reputation given that highly regarded firms announce a higher number of M&As in the event of CSiR.

Overall, this thesis seeks to answer the question of whether firms are punished for their irresponsible behavior. Instinctively, the answer to this question would be yes, all firms are punished for behavior that is deemed unethical, immoral and/or illegal. However, the concept of CSiR is not so straightforward, and there are many factors affecting this outcome. The present research has addressed some of these factors, more specifically, the nonmarket issues. It is these issues that the present research has sought to address, using empirical analysis to investigate how firms use social and political capital, built using a series of nonmarket tactics to avoid stakeholder retaliation. Overall, our research shows that only in certain instances do firms face repercussions for their CSiR actions. For instance, the analysis in Chapter 3 shows that financial performance (i.e., Tobin's q) is not affected by CSiR, which might mean that shareholders tend to overlook the irresponsible actions that firms commit. Meanwhile, stakeholders as a whole are more likely to hold firms accountable for their CSiR behavior, especially when these firms increase political activity through financial CPA.

As we have discussed in the thesis, CSiR is a multifaceted concept identified through accidental or intentional behavior by the firm. However, identifying which CSiR act falls into these two categories can be subjective and in some cases context specific. We note early in this research the different factors affecting CSiR, such as how the location of the act can determine the difference between illegal and immoral CSiR. This suggests that stakeholder perception of these actions will determine if the firm faces some form of punishment. Our results in Chapter 4, specifically the analysis of the control variables identifying each CSiR category, suggest that not all CSiR actions are punished equally. Additionally, there are many factors that determine how stakeholders recognize CSiR acts. As previously discussed, stakeholders' attention is often split, and firms rely on this to potentially deflect attention from irresponsible behavior. By answering the overarching research question, this thesis shows that CSiR activity can negatively affect a firm's performance. Nonetheless, there may be extenuating circumstances that will determine if there are any consequences and how severe these consequences are.

5.2 Contribution to Research

This research makes four important contributions to NMS, IST and M&A literatures. First, we extend IST into the nonmarket domain by drawing attention to the ability of stakeholders to sanction firms due to irresponsible behavior. In their original contribution, Donaldson and Preston (1995) endorse the normative approach to stakeholder theory as the dominant perspective, with the instrumental approach taking a more subservient role. However, it is clear that the instrumental approach to stakeholder theory is more suited to a complex business environment like the current one we live in. Stakeholder theory is originally rooted in strategic management, and in challenging and uncertain business environments, collaborating with stakeholders is vital to safeguarding and often improving firm performance. An ethical/normative approach to the strategy-performance debate has merit, but firms are ultimately focused on value creation. Taking an instrumental approach to stakeholder relationships provides opportunities for collaboration and reduces the potential for conflict. The core ethos of IST is to create long-term stakeholder relations by building trust, leading to a sustained competitive advantage. We note with interest that Jones (1995) discuss how firms can sanction certain stakeholders where opportunistic behavior occurs. However, our research challenges this assumption and we examine if stakeholders can sanction firms through explicit and implicit contractual obligations as Jones (1995) advocated.

Our next contribution is in the nonmarket domain, where we address a call from scholars in both strategy and international business that seek to align the parallel strands of nonmarket strategy; namely, CSR and CPA. Aligning these two concepts is bound to make firms enjoy the perceived benefits of both to improve firm performance (den Hond *et al.*, 2014). However, our research takes a different approach to this and considers the role of CSiR and how this type of behavior (either intentional or accidental) can influence firm performance. Firms can reap many benefits from CSR, including improved financial performance (Barnett and Salomon, 2012); enhanced corporate reputation (Brammer and Pavelin, 2005); and sustained competitive advantage (Saeidi, Sofian, Saeidi, Saeidi, and Saaeidi, 2015). And while these benefits can extend to both primary and secondary stakeholder groups, the benefits of firms engaging in CPA mostly extends to the firm (Lux, Crook and Woehr, 2011). Our research explores the effect that relational and financial lobbying have on the relationship between CSiR and firm performance, finding that it either has no effect or a negative effect that further erodes financial and non-financial gains. As such, aligning the two strands of nonmarket strategy in the aftermath of a CSiR event is a complex task. To the best of our knowledge, this thesis is the first study to extend IST into the CPA domain. Our research refocuses IST from the firm as the dominant partner and brings attention to other important nonmarket stakeholder groups who can retaliate against the firm and affect its performance objectives.

We also contribute overall to nonmarket strategy literature by analyzing CSR and CSiR as two separate variables. CSR is a multidimensional construct and extends to business ethics, strategy, corporate reputation and organizational behavior. And through all this, research extends the virtues of firms engaging in CSR and the benefits to firm and stakeholders alike. However, recently researchers have begun to draw attention to this rather one-sided debate, that if a firm is "doing good, it is avoiding bad" (Murphy and Schlegelmilch, 2013; Price and Sun, 2017). Chapters 3 and 4 in this thesis analyze CSiR separately from CSR to provide a better understanding of the performance impact of CSiR. We found that separating the "good" and "bad" can help firms better address issues that are harmful not just to firm performance, but also stakeholder engagement. We believe that nonmarket strategy is firm and industry specific, and therefore it is necessary to separately account for all factors in this process and move firms away from a 'one-size fits all' mentality.

Our final contribution is to the mergers and acquisitions (M&A) literature. We extend nonmarket strategy and IST into this research domain. M&As are complex and require extensive negotiations with multiple stakeholders across economic, political, social, governance, and environmental spheres. Yet so far, the M&A literature has largely ignored nonmarket concepts by concentrating on the financial and strategic factors that affect this process. Our research introduces the nonmarket element and takes a stakeholder perspective rather than a shareholder-centric approach that marks most of this literature. We investigate how to avoid or mitigate stakeholder retaliation by using reputational and political capital where CSiR poses a risk. To the best of our knowledge, this is the first study to take such an approach.

5.3 Reflection of the Research Journey

Over the course of completing this thesis I[2] encountered some challenges that ultimately determined the methodological approach. The following is an account of said challenges, and how they eventually contributed to the creation of the unique and novel dataset and successful completion of the thesis. These challenges are directly related to the nature of the core research

[2] Please note the use of "I" instead of "we" in this subsection, in which I reflect on the process that led me to successfully develop my thesis.

topics addressed, and the practical challenges that researchers face when designing a successful research strategy.

In the early stages of the PhD program, developing a rigorous research strategy was crucial to successfully complete the doctoral thesis. In order to do this, the nature of the research question itself would in some ways determine how the research methodology would develop, and by extension the data collection process. Initially, I designed an inductive qualitative study with the express aim of targeting aerospace companies. The idea here was to pursue firms operating in industries deemed to be strongly active in the nonmarket arena. The original direction of the thesis set out to explore how firms develop sociopolitical strategies to overcome potential issues that may arise as firms expand operations across national borders. One area of interest focused particularly on issues related to liabilities of foreignness during the internationalization process, investigating how firms could use their socio-political activity to overcome such issues. Drawing on IST as the main theoretical framework, one of the central aims of the thesis set out to explore the different stakeholder networks these firms engage with to successfully implement market and nonmarket strategies. Therefore, I developed (together with my supervisors) a research strategy aimed at gaining an in-depth understanding of how these networks unfold to achieve the firm's strategic objectives.

Using this perspective, my supervisors and I agreed that trade associations would be the most appropriate group of stakeholders to approach, as these are active in both social and political activities. Having identified these groups, we approached the UK, USA and European aerospace trade associations to conduct a series of interviews with these specific partners. This process met with some success in the early phase. I made initial contact with the UK and US associations using a variety of communications, such as email campaigns, video calls and face-to-face meetings.

From here a series of informal interviews were arranged to introduce the intended work connected to the thesis and lay out the research aims and objectives.

It was during this process that my supervisors and I were informed that the UK TA held every two years the Farnborough Air and Trade Show, where more than 1500 of its members attended a weeklong trade show and exhibition. In 2018, I applied to attend the exhibition and created a “research information pack” to approach a specific set of global aerospace firms. I identified the top 100 aerospace firms and cross-checked that each one was a member of the trade association and would be attending the air show as exhibitors.

I conducted the initial research strategy over three stages to gain access and secure the agreement of individuals at each organization to take part in a series of interviews. First, I planned to approach the identified trade associations to explore the stakeholder-firm relationship. Next, I intended to email a specific set of aerospace companies; and, finally, I made the necessary arrangements to attend the trade show to conduct face-to-face research pitches to make contacts and follow up communication in the next phase, once agreement had been confirmed. However, this ambitious strategy met with serious challenges regarding access to these firms. In one respect, we had successfully engaged with the trade associations, but only to a certain point. While the UK trade association showed interest in partaking in the research process, the US trade association, after the initial contact and informal interviews (conducted over Skype), were unable to continue to engage in the research project further. Reasons given centred around issues such as conflicts of interest and confidentiality. One central point made was the nature of the contract process with the US trade association and its clients, the premise being that the US government (as the main client of the trade association) meant that no information could or would be shared.

Beyond this, the months spent engaging with firms via emails also met with limited success. Some firms showed initial interest in engaging in the process. They were particularly eager to discuss their social responsibility initiatives. However, when discussions touched upon their political activity, this was met with reluctance and in most cases a refusal to progress further in the research project. Moreover, where some firms cited conflicts of interest and confidentiality, other firms cited a lack of time and resources to engage in a research project of this size. Mostly though, firms ceased contact altogether.

The end result of this unsuccessful research strategy prompted discussions with my supervisory team on the most appropriate next steps for the thesis. Ultimately, it was decided that a quantitative approach should be explored, more specifically looking at secondary archival data to avoid further issues with access. As described in earlier sections of this thesis, an extensive data collection process was devised, following previous studies in the nonmarket strategy and social movement literatures (e.g., McDonnell and Werner, 2016: Price and Sun, 2017). This decision resulted in the successful completion of the thesis in its current form. On a final note, although I met serious challenges in the early stages of completing the thesis, this was a valuable learning experience for an early career researcher, which I will be able to build on for future research projects.

5.4 Implications for Future Research and Practice

Based on the results from the extensive analysis conducted in the thesis, this section serves to discuss some areas that may be of importance to practitioners. Using IST as the main theoretical lens, we highlight the necessity of firms to increase stakeholder engagement to improve overall performance while noting the ability of stakeholders to influence the strategic direction of firms. Building on this perspective, we would urge practitioners to take a proactive approach to stakeholder engagement. Prior research has focused on the most powerful stakeholder groups (e.g., employees and suppliers), who are perceived to have the ability to disrupt firm performance. By contrast, nonmarket or "secondary" stakeholders, who can also significantly influence firm performance, have received scant attention. Nonetheless, our research shows that not all stakeholder engagement improves performance. As an example, it seems that engaging with nonmarket stakeholders via lobbying can negatively impact on non-financial performance. Therefore, it is essential to continually assess the needs of all stakeholder groups (both primary and secondary) to understand and anticipate their influence. We would suggest that implementing an audit process similar to how firms assess the impact of CSR programs is one such measure practitioners could take. Stakeholders may have competing needs and taking a long-term approach to manage those needs by addressing and evaluating each relationship can potentially identify problematic issues and reduce conflicts.

We identify early in the thesis serious challenges in the business environment concerning social and environmental issues that impact on firm performance. Facing increased pressure from stakeholders concerning the responsibility of firms to provide solutions to these issues is pushing firms to engage more strategically with their CSR policies and programs. Firms now seek opportunities to align these factors with firms financial and operational goals. Effectively aligning social and financial objectives has enabled some firms to reduce operational costs, increase efficiency and improve reputation. The successful implementation of these policies has caught the attention of shareholders and investors, placing further pressure on firms to align market and nonmarket strategies. This has implications for the wider area of strategy and practitioners alike, as we now see firms pushed to divest from socially irresponsible practices and increase their socially responsible initiatives. Nonetheless, this is not so straightforward in practice, particularly if firms have a history of irresponsible behavior, as these efforts could be viewed with skepticism concerning firm motivation. As this type of pressure increases, activist shareholders will continue to urge firms to incorporate more strategic CSR into their financial and operational activities. In past research where the unnecessary cost of CSR programs has been used to cut funding for these projects, we now see opportunity for CSR to boost financial performance and attract future investors. We anticipate fruitful opportunities for practitioners to invest in innovative programs to boost CSR initiatives, particularly in terms of clean/green technology.

Finally, our research highlights the implications of continued investment in political activity, using both financial and relational CPA tactics. Our analysis shows the negative effect of financial CPA on non-financial performance. Stakeholder attention on firm activity is increasing, specifically in areas that can be misconstrued as forms of bribery. Increasing lobbying expenditures can negatively impact relations with certain stakeholders, particularly if the issues that firms lobby for have the potential to harm them (e.g., lobbying efforts against the increase of the minimum wage). This can be particularly damaging for firm performance and growth if the firm is also involved in CSiR. It is therefore essential that firms engaging in these practices assess each one on a case-by-case basis, as certain CPA tactics can contradict other strategic intentions of firms. This can undermine confidence in the firm’s ability to meet its strategic obligations and may have long-term consequences.

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All in all, our findings offer some interesting perspectives on the stakeholder-performance debate. Firms are under increasing pressure to find innovative solutions to improve performance and create a sustainable competitive advantage. Our aim of extending the stakeholder-performance debate into the nonmarket arena has pushed the boundaries of this debate by challenging the assumption that irresponsible behavior will negatively impact firm performance. Drawing on IST and signaling theory, we have explored how firms engage in nonmarket activities to try to build social and political capital as a form of insurance. While these tactics may work, we find that only a good corporate reputation has an insurance-like effect when CSiR takes place. This supports risk management as a successful strategy for certain firms (Pfeffer, 2016). As Groening and Kanuri (2013) point out "it pays to be good, but not too good". Nonetheless, being involved in CPA worsens the negative effects of CSiR. We suggest that when firms see the potential of taking an instrumental approach to stakeholder engagement, they will need to readdress their CPA activity. If they continue investing in financial and relational CPA, our results indicate that stakeholders will eventually sanction them, probably because of how these nonmarket activities are often associated with shady operations.

Firms must now pay attention to this as stakeholders are more than ever able to hold firms accountable for their actions. Stakeholders have become increasingly vocal on social media platforms, ensuring firms will need to devote greater resources to manage their stakeholder engagement. Consumer preferences are changing and awareness of certain CSiR behaviors can push them to switch brands to more socially responsible firms. For instance, we note the rise of firms attempting to achieve a *B-Corporation* certificate to incorporate more sustainable practices into their core business models.[3] Other examples are the Pandora Group, which is committing to using only recycled materials in its jewelry;[4] or the Brewdog Brewery Company, which has recently announced its carbon neutral status.[5] Both firms aim to become market leaders in their

[3] "Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose" (B Corps, n.d.). For more information, please visit: https://bcorporation.net/ (Last accessed August 25, 2020).
[4] https://www.ft.com/content/d82002c9-26ef-41bc-80b7-96025f52dbdd (Last accessed August 25, 2020).
[5] https://www.forbes.com/sites/emanuelabarbiroglio/2020/08/25/brewdog-is-officially-the-first-carbon-negative-beer-business/ (Last accessed August 25, 2020).

industries, implementing innovative policies and practices and seeking to secure brand and product loyalty.

We expect that full transparency is key to firms responding to the increased pressure to align their stakeholder strategy with their performance goals. Whether CSiR acts are intentional or accidental, keeping stakeholders engaged and informed throughout the process is crucial. In fact, collaborating with stakeholders to find solutions to prevent CSiR from reoccurring could be beneficial for firms to secure long-term value creation. Stakeholder engagement is still relatively ill defined, and so are the motivations of investing in stakeholder activities.

But what are the costs of *not* engaging with nonmarket stakeholders? In the current business climate, this seems to be the most significant question. At a time of unprecedented change, firms are by necessity changing their strategic approach. In many cases, stakeholders who were once side-lined or dismissed as unimportant are now considered crucial and regarded as *key workers*, for instance. In the era of COVID-19, many of our assumptions regarding firm behavior may no longer seem relevant. Yet what stands out now is that more than ever, this crisis has accelerated the shift towards a more stakeholder-centric approach to business management. The World Economic Forum has labelled this *the great reset*[6], stating that cooperation and partnerships across political, economic, and social arenas is vital to renewed growth and opportunity. Our research seeks to emphasize this point, that stakeholder engagement is key to creating shared value, as we seek to move the business and society debate beyond a purely shareholder-centric approach.

[6] https://www.weforum.org/focus/the-great-reset (Last accessed August 25, 2020).

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